

EMTHANJENI LOCAL MUNICIPALITY
ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June 2012

General information

Members of the Council:

ST Sthonga	Mayor
MM Freddie	Speaker
WJ du Plessis	Member
AF Jaftha	Member
J Jood	Member
VG Jonas	Member
MC Kivedo	Member
M Malherbe	Member
GL Nkumbi	Member
GL Nyl	Member
HJ Rust	Member
B Swanepoel	Member
NS Thomas	Member
WA Witbooi	Member

Municipal Manager: I Visser

Chief Financial Officer: MF Manuel

Grading of Local Authority: Grade 2

Auditors: Auditor-General

Bankers: ABSA Bank Limited

Registered Office:
45 Voortrekker Street
De Aar
7000

Physical address:
45 Voortrekker Street
De Aar
7000

Postal address:
PO Box 42
De Aar
7000

Telephone number: (053) 632 9100

Fax number: (053) 631 0105

EMTHANJENI LOCAL MUNICIPALITY
ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June 2012

Approval of annual financial statements

I am responsible for the preparation of these annual financial statements, which are set out on pages X to XX, in terms of Section 126(1) of the Municipal Finance Management Act and which I have signed on behalf of the Municipality.

I certify that the salaries, allowances and benefits of Councillors, loans made to Councillors, if any, and payments made to Councillors for loss of office, if any, as disclosed in note 35 of these annual financial statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

Municipal Manager: I Visser

31 August 2012

EMTHANJENI LOCAL MUNICIPALITY
REPORT OF THE CHIEF FINANCIAL OFFICER

1. INTRODUCTION

It gives me great pleasure to present the financial position of Emthanjeni Local Municipality at 30 June 2012 and the results of its operations and cash flows for the year then ended.

These Annual Financial Statements have been prepared in accordance with Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board (ASB) in accordance with Section 122(3) of the Municipal Finance Management Act, (Act No 56 of 2003). The standards and pronouncements that form the GRAP Reporting Framework for the 2011/12 financial period are set out in Directive 5 issued by the ASB on 27 March 2012.

The Statement of Financial Position at 30 June 2012 indicates a decrease in Net Assets and Non-current Liabilities and an increase Current Liabilities.

The decrease in Net Assets is ascribed primarily to the decrease in Accumulated Surplus as a result of the deficit generated on the operating account. The decrease in Non-current Liabilities is primarily as a result of the decrease in Retirement Benefit Liabilities. The increase in Current Liabilities is primarily as a result of the increase in Creditors and Unspent Conditional Grants.

2. KEY FINANCIAL INDICATORS

The following indicators are self-explanatory. The percentages of expenditure categories are well within acceptable norms and indicate good governance of the funds of the municipality.

Financial Statement Ratios:

INDICATOR	2012	2011
Surplus / (Deficit) at the end of the Year	(56,870,146)	(36,060,359)
Expenditure Categories as a percentage of Total Expenses:		
Employee Related Costs	22.31%	27.36%
Remuneration of Councillors	1.65%	1.71%
Collection Costs	0.00%	0.00%
Depreciation and Amortisation	33.13%	35.51%
Impairment Losses	8.19%	0.94%
Repairs and Maintenance	4.19%	5.16%
Interest Paid	0.62%	0.40%
Bulk Purchases	16.46%	14.01%
Contracted Services	4.19%	4.77%
Grants and Subsidies Paid	0.38%	0.30%
General Expenses	8.68%	9.31%
Loss on Disposal of Property, Plant and Equipment	0.02%	0.00%
Loss on Sale of land	0.14%	0.20%
Inventory Written-off	0.03%	0.32%
Current Ratio:		
Creditors Days	30 days	30 days
Debtors Days	183 days	45 days

The increase in the number of Debtor Days is due to the increase in the Provision for Impairment that amounted to R16 935 340. All creditors are paid within 30 days and therefore the current ratio is listed as such.

The following ratios are seen by the Municipality as key ratios in monthly reporting:

RATIOS	2012	2011
Cost Coverage	87%	53%
Debt Coverage	37.51	28.54
Service Debtors to Revenue	0.51	0.12

EMTHANJENI LOCAL MUNICIPALITY
REPORT OF THE CHIEF FINANCIAL OFFICER

3. OPERATING RESULTS

Details of the operating results per segmental classification of expenditure are included in Appendix "D", whilst operational results per category of expenditure, together with an explanation of significant variances of more than 10% from budget, are included in Note 64.

The services offered by Emthanjeni Local Municipality can generally be classified as Rates and General, Economic and Trading Services and are discussed in more detail below.

The overall operating results for the year ended 30 June 2012 are as follows:

DETAILS	Actual 2011/12 R	Actual 2010/11 R	Percentage Variance %	Budgeted 2011/12 R	Variance actual/ budgeted %
Income: Opening surplus / (deficit) Operating income for the year	919,832,243 150,323,523	943,712,142 152,164,177	(1.21)%	159,584,000	(5.80)%
	1,070,155,766	1,095,876,319		159,584,000	
Expenditure: Operating expenditure for the year Sundry transfers	(207,193,669) 12,190,337	(188,224,536) 12,180,460	10.08%	(144,200,000) -	43.68%
Closing surplus / (deficit)	875,152,434	919,832,243		15,384,000	

3.1 Rates and General Services:

Rates and General Services are all types of services rendered by the municipality, excluding those listed below. The main income sources are Assessment Rates and Sundry Fees levied.

DETAILS	Actual 2011/12 R	Actual 2010/11 R	Percentage Variance %	Budgeted 2011/12 R	Variance actual/ budgeted %
Income	49,379,467	60,432,053	(18.29)%	60,528,000	(18.42)%
Expenditure	(96,080,671)	(134,419,928)	(28.52)%	(71,366,000)	34.63%
Surplus / (Deficit)	(29,772,828)	(78,825,049)		(10,838,000)	
Surplus / (Deficit) as % of total income	52.35%	218.59%		(6.79)%	

3.2 Housing Services:

Housing Services are services rendered by the municipality to supply housing to the community and includes the rental of units owned by the municipality to public and staff. The main income source is the levying of Housing Rentals.

DETAILS	Actual 2011/12 R	Actual 2010/11 R	Percentage Variance %	Budgeted 2011/12 R	Variance actual/ budgeted %
Income	244,006	1,109,127	(78.00)%	18,000	1255.59%
Expenditure	(4,016,068)	(4,039,478)	(0.58)%	(2,987,000)	34.45%
Surplus / (Deficit)	(3,772,062)	(2,930,351)		(2,969,000)	
Surplus / (Deficit) as % of total income	6.63%	5.15%		(1.86)%	

EMTHANJENI LOCAL MUNICIPALITY
REPORT OF THE CHIEF FINANCIAL OFFICER

3.3 Waste Management Services:

Waste Management Services are services rendered by the municipality for the collection, disposal and purifying of waste (refuse and sewerage). Income is mainly generated from the levying of fees and tariffs determined by the council.

DETAILS	Actual 2011/12 R	Actual 2010/11 R	Percentage Variance %	Budgeted 2011/12 R	Variance actual/ budgeted %
Income	24,722,347	23,795,472	3.90% 77.24%	28,772,000	(14.07)% 44.91%
Expenditure	(20,168,901)	(11,379,162)		(13,918,000)	
Surplus / (Deficit)	4,553,446	12,416,310		14,854,000	
Surplus / (Deficit) as % of total income	(8.01)%	(34.43)%			9.31%

3.4 Electricity Services:

Electricity is bought in bulk from Eskom and distributed to the consumers by the municipality. The cost of bulk purchases to the municipality was R33 173 974 (2011: R25 508 634). Tariffs levied for electricity are subject to administered adjustments.

DETAILS	Actual 2011/12 R	Actual 2010/11 R	Percentage Variance %	Budgeted 2011/12 R	Variance actual/ budgeted %
Income	56,968,969	50,530,600	12.74% 65.29%	52,647,000	8.21% 21.69%
Expenditure	(54,151,724)	(32,760,795)		(44,498,000)	
Surplus / (Deficit)	2,817,245	17,769,806		8,149,000	
Surplus / (Deficit) as % of total income	(4.95)%	(49.28)%			5.11%

3.5 Water Services:

Water is bought in bulk from a number of suppliers and distributed to the consumers by the municipality. The cost of bulk purchases to the municipality was R931 628 (2011: R870 953). Tariffs levied for water are subject to administered adjustments.

DETAILS	Actual 2011/12 R	Actual 2010/11 R	Percentage Variance %	Budgeted 2011/12 R	Variance actual/ budgeted %
Income	19,008,734	16,296,925	16.64% 482.67%	17,619,000	7.89% 186.73%
Expenditure	(32,776,305)	(5,625,173)		(11,431,000)	
Surplus / (Deficit)	(13,767,571)	10,671,752		6,188,000	
Surplus / (Deficit) as % of total income	24.21%	(29.59)%			3.88%

4. ACCUMULATED SURPLUS

The balance of the Accumulated Surplus as at 30 June 2012 amounted to R875 152 434 (30 June 2011: R919 832 243) and is made up as follows:

Capital Replacement Reserve	2,252,793
Accumulated Surplus	872,899,641
	875,152,434

The Capital Replacement Reserve replaces the previous statutory funds, like the Capital Development Fund, and is a cash-backed reserve established to enable the municipality to finance future capital expenditure. Cash contributions, depending on the availability of cash, are made annually to the reserve.

The municipality, in conjunction with its own capital requirements and external funds (external loans and grants) is able to finance its annual infrastructure capital programme.

Refer to Note 25 and the Statement of Change in Net Assets for more detail.

EMTHANJENI LOCAL MUNICIPALITY
REPORT OF THE CHIEF FINANCIAL OFFICER

5. LONG-TERM LIABILITIES

The outstanding amount of Long-term Liabilities as at 30 June 2012 was R8 510 509 (30 June 2011: R10 792 632).

Refer to Note 20 and Appendix "A" for more detail.

6. RETIREMENT BENEFIT LIABILITIES

The outstanding amount of Retirement Benefit Liabilities as at 30 June 2012 was R24 626 029 (30 June 2011: R25 507 607).

This liability is in respect of continued Health Care Benefits for employees of the municipality after retirement being members of schemes providing for such benefits. This liability is unfunded.

Refer to Note 21 for more detail.

7. NON-CURRENT PROVISIONS

Non-current Provisions amounted R2 467 105 as at 30 June 2012 (30 June 2011: R2 412 280) and is made up as follows:

Provision for Rehabilitation of Land-fill Sites	2,467,105
	<u>2,467,105</u>

These provisions are made in order to enable the municipality to be in a position to fulfill its known legal obligations when they become due and payable.

Refer to Note 22 for more detail.

8. CURRENT LIABILITIES

Current Liabilities amounted R37 395 383 as at 30 June 2012 (30 June 2011: R24 151 105) and is made up as follows:

Consumer Deposits	Note 14	1,781,959
Current Portion of Retirement Benefit Liabilities	Note 15	1,282,656
Creditors	Note 16 & 17	12,776,290
Unspent Conditional Grants and Receipts	Note 18	11,954,426
VAT	Note 19	2,189,259
Bank Overdraft	Note 5	5,154,118
Current Portion of Long-term Liabilities	Note 20	2,256,675
		<u>37,395,383</u>

Current Liabilities are those liabilities of the municipality due and payable in the short-term (less than 12 months). There is no known reason as to why the municipality will not be able to meet its obligations.

Refer to the indicated Notes for more detail.

9. PROPERTY, PLANT AND EQUIPMENT

The net value of Property, Plant and Equipment was R1 025 429 449 as at 30 June 2012 (30 June 2011: R1 075 119 945).

Refer to Note 8 and Appendices "B, C and E (2)" for more detail.

10. INTANGIBLE ASSETS

The net value of Intangible Assets were R1 062 346 as at 30 June 2012 (30 June 2011: R1 611 012).

These are assets without physical form and are in respect of computer software obtained by the municipality in order to be able to fulfil its duties as far as service delivery is concerned.

Refer to Note 9 and Appendix "B" for more detail.

11. INVESTMENT PROPERTIES

The net value of Investment Properties were R3 106 800 as at 30 June 2012 (30 June 2011: R3 440 900).

Refer to Note 10 and Appendix "B" for more detail.

12. NON-CURRENT INVESTMENTS

The municipality held Investments to the value of R10 940 as at 30 June 2012 (30 June 2011: R7 678).

Refer to Note 12 for more detail.

EMTHANJENI LOCAL MUNICIPALITY
REPORT OF THE CHIEF FINANCIAL OFFICER

13. LONG-TERM RECEIVABLES

Long-term Receivables of R1 164 at 30 June 2012 (30 June 2011: R30 126) is made up as follows:

Other Loans	1,164
Less: Short-term portion included in Current Assets	-
	1,164

The decrease in the amount for Long-term Receivables is due to a loan that was repaid in full during the year.

Refer to Note 13 for more detail.

14. CURRENT ASSETS

Current Assets amounted R107 470 339 as at 30 June 2012 (30 June 2011: R103 214 313) and is made up as follows:

Inventory	Note 2	46,078,743
Receivables from Exchange Transactions	Note 3	39,144,555
Receivables from Non-exchange Transactions	Note 4	7,788,763
Bank, Cash and Cash Equivalents	Note 5	14,379,346
Operating Lease Assets	Note 6	78,931
		107,470,339

The increase in the amount for Current Assets is mainly due to the increase in the Receivables from Exchange Transactions.

Refer to the indicated Notes for more detail.

15. INTER-GOVERNMENTAL GRANTS

The municipality is dependent on financial aid from other government spheres to finance its annual capital programme. Operating grants are utilised to finance indigent assistance and provision of free basic services.

Refer to Notes 18 and 27, and Appendix "F" for more detail.

16. EVENTS AFTER THE REPORTING DATE

Full details of all known events, if any, after the reporting date are disclosed in Note 61.

17. GENERAL RECOGNISED ACCOUNTING PRACTICE (GRAP)

In order to adhere to principles and procedures prescribed by law and the directions of National Treasury, the Annual Financial Statements have been converted to the new reporting GRAP-format.

18. EXPRESSION OF APPRECIATION

We are grateful to the Mayor, members of the Executive Committee, Councillors, the Municipal Manager and Heads of Departments for the support extended during the financial year. A special word of thanks to all staff in the Finance Department, for without their assistance these Annual Financial Statements would not have been possible.

CHIEF FINANCIAL OFFICER

31 August 2012

EMTHANJENI LOCAL MUNICIPALITY
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EMTHANJENI LOCAL MUNICIPALITY
STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2012

		Actual	
	Note	2012	Restated 2011
		R	R
ASSETS			
Current Assets		107,470,339	103,227,751
Inventory	2	46,078,743	45,986,510
Receivables from Exchange Transactions	3	39,144,555	40,831,259
Receivables from Non-exchange Transactions	4	7,788,763	7,192,445
Bank, Cash and Cash Equivalents	5	14,379,346	9,160,618
Operating Lease Assets	6	78,931	43,480
Current Portion of Long-term Receivables	7	-	13,438
Non-Current Assets		1,029,731,322	1,080,409,915
Property, Plant and Equipment	8	1,025,429,449	1,075,119,945
Intangible Assets	9	1,062,346	1,611,012
Investment Property	10	3,106,800	3,440,900
Non-current Investments	12	10,940	7,678
Operating Lease Assets	6	120,623	200,253
Long-term Receivables	13	1,164	30,126
Total Assets		1,137,201,660	1,183,637,666
LIABILITIES			
Current Liabilities		37,395,383	24,151,151
Consumer Deposits	14	1,781,959	1,710,596
Current Portion of Retirement Benefit Liabilities	15	1,282,656	1,091,123
Creditors from Exchange Transactions	16	12,003,563	8,214,306
Creditors from Non-exchange Transactions	17	772,728	728,119
Unspent Conditional Grants and Receipts	18	11,954,426	2,325,389
VAT Payable	19	2,189,259	4,036,539
Bank Overdraft	5	5,154,118	4,020,092
Current Portion of Long-term Liabilities	20	2,256,675	2,024,986
Non-Current Liabilities		38,209,664	41,019,756
Long-term Liabilities	20	8,510,509	10,792,632
Retirement Benefit Liabilities	21	24,626,029	25,507,607
Non-current Provisions	22	2,467,105	2,412,280
Long Service Award	23	2,606,021	2,307,237
Total Liabilities		75,605,047	65,170,907
Total Assets and Liabilities		1,061,596,613	1,118,466,758
NET ASSETS		1,061,596,613	1,118,466,758
Reserves	24	186,444,178	198,634,515
Accumulated Surplus / (Deficit)	25	875,152,435	919,832,243
Total Net Assets		1,061,596,613	1,118,466,758

EMTHANJENI LOCAL MUNICIPALITY
STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2012

		Actual	
		2012	Restated 2011
		R	R
REVENUE			
Revenue from Non-exchange Transactions			
Property Rates	26	14,337,195	12,192,849
Property Rates - Penalties imposed and collection charges	32	223,361	175,921
Fines	27	6,703,169	8,698,596
Licences and Permits	28	1,107,196	1,086,425
Government Grants and Subsidies Received	29	43,887,412	41,477,597
Revenue from Exchange Transactions			
Service Charges	30	76,226,722	66,005,131
Rental of Facilities and Equipment	31	587,101	565,603
Interest Earned - External Investments	32	585,044	903,394
Interest Earned - Outstanding Debtors	32	1,115,696	842,999
Dividends Received		-	540
Other Income	33	5,547,365	20,197,863
Other Gains on Continued Operations	44	3,262	467
Gains on Disposal of Property, Plant and Equipment		-	16,791
Total Revenue		150,323,523	152,164,177
EXPENDITURE			
Employee Related Costs	34	46,227,048	51,491,497
Remuneration of Councillors	35	3,421,246	3,223,142
Depreciation and Amortisation	36	68,650,425	66,837,113
Impairment Losses	37	16,971,219	1,765,894
Repairs and Maintenance	38	8,679,225	9,714,320
Finance Costs	39	1,284,487	754,856
Bulk Purchases	40	34,105,602	26,379,586
Contracted Services	41	8,689,470	8,970,331
Grants and Subsidies Paid	42	788,172	567,870
General Expenses	43	17,982,271	17,532,266
Loss on Disposal of Property, Plant and Equipment		44,914	-
Loss on Sale of Land		288,719	382,404
Inventory Written-off		60,870	605,257
Total Expenditure		207,193,669	188,224,536
(DEFICIT) FOR THE YEAR		(56,870,146)	(36,060,359)

EMTHANJENI LOCAL MUNICIPALITY
STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30 JUNE 2012

	Description	Revaluation Reserve	Accumulated Surplus / (Deficit) Account		Total for Accumulated Surplus/(Deficit) Account	Total
			Capital Replacement Reserve	Accumulated Surplus / (Deficit)		
	2011	R	R	R	R	R
	Balance at 30 June 2010	283,487,410	2,252,793	592,815,734	595,068,527	878,555,937
	Correction of Error (Note 45)	(72,672,435)	-	348,643,615	348,643,615	275,971,180
	Restated Balance	210,814,974	2,252,793	941,459,349	943,712,142	1,154,527,117
	Surplus / (Deficit) for the year	-	-	(36,060,359)	(36,060,359)	(36,060,359)
	Depreciation transfer for Land and Buildings (Note 24)	(12,180,460)	-	12,180,460	12,180,460	-
	Balance at 30 June 2011	198,634,515	2,252,793	917,579,450	919,832,243	1,118,466,758
	2012					
	Restated Balance	198,634,515	2,252,793	917,579,450	919,832,243	1,118,466,758
	Surplus / (Deficit) for the year	-	-	(56,870,146)	(56,870,146)	(56,870,146)
	Depreciation transfer for Land and Buildings (Note 24)	(12,190,337)	-	12,190,337	12,190,337	-
	Balance at 30 June 2012	186,444,178	2,252,793	872,899,641	875,152,434	1,061,596,612

Details on the movement of the Funds and Reserves are set out in Note 24 and Note 25.

EMTHANJENI LOCAL MUNICIPALITY
CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2012

	Note	2012 R	Actual Restated 2011 R
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from Ratepayers, Government and Other		147,882,350	98,886,077
Cash paid to Suppliers and Employees		(123,933,235)	(92,132,095)
Cash generated from / (utilised in) Operations	47	23,949,115	6,753,982
Dividends received		-	540
Interest received	32	1,924,100	1,922,314
Interest paid	39	(1,284,487)	(754,856)
NET CASH FLOWS FROM / (USED IN) OPERATING ACTIVITIES		24,588,729	7,921,980
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of Property, Plant and Equipment	8	(18,516,991)	(20,618,114)
Purchase of Intangible Assets	9	(25,609)	(51,842)
Proceeds on Disposal of Property, Plant and Equipment		1,226	160,260
Proceeds on Disposal of Investment Property		45,381	-
Decrease / (Increase) in Long-term Receivables	13	42,401	12,709
NET CASH FLOWS FROM / (USED IN) INVESTING ACTIVITIES		(18,453,591)	(20,496,987)
CASH FLOWS FROM FINANCING ACTIVITIES			
New Loans raised		-	9,000,000
Loans repaid		(2,050,435)	(1,349,765)
NET CASH FLOWS FROM / (USED IN) FINANCING ACTIVITIES		(2,050,435)	7,650,235
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS		4,084,702	(4,924,772)
Cash and Cash Equivalents at the beginning of the year	5	5,140,526	10,065,298
Cash and Cash Equivalents at the end of the year	5	9,225,228	5,140,526

EMTHANJENI LOCAL MUNICIPALITY

ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

1. BASIS OF PRESENTATION

The Annual Financial Statements have been prepared on an accrual basis of accounting and are in accordance with the historical cost convention, except where indicated otherwise.

The financial statements have been prepared in accordance with the effective Standards of Generally Recognised Accounting Practices (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board and the Municipal Finance Management Act, 2003 (Act No. 56 of 2003).

1. 1 CHANGES IN ACCOUNTING POLICY AND COMPARABILITY

Accounting Policies have been consistently applied, except where otherwise indicated below:

For the years ended 30 June 2011 and 30 June 2012 the municipality has adopted the accounting framework as set out in point 1 above. The details of any resulting changes in accounting policy and comparative restatements are set out below.

The municipality changes an accounting policy only in the following instances:

- (a) is required by a Standard of GRAP; or
- (b) results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the entity's financial position, financial performance or cash flow.

1. 2 CRITICAL JUDGEMENTS, ESTIMATIONS AND ASSUMPTIONS

In the application of the municipality's accounting policies, which are described below, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

These estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the critical judgements, apart from those involving estimations, that the management have made in the process of applying the municipality's Accounting Policies and that have the most significant effect on the amounts recognised in Annual Financial Statements:

1. 2. 1 Revenue Recognition

Accounting Policy 10.2 on *Revenue from Exchange Transactions* and Accounting Policy 10.3 on *Revenue from Non-exchange Transactions* describes the conditions under which revenue will be recorded by the management of the municipality.

In making their judgement, the management considered the detailed criteria for the recognition of revenue as set out in GRAP 9: Revenue from Exchange Transactions and GAMAP 9: Revenue, as far as Revenue from Non-Exchange Transactions is concerned (see Basis of Preparation above). In particular, whether the municipality, when goods are sold, had transferred to the buyer the significant risks and rewards of ownership of the goods and when services are rendered, whether the service has been rendered. Also of importance is the estimation process involved in initially measuring revenue at the fair value of the consideration received. The management of the municipality is satisfied that recognition of the revenue in the current year is appropriate.

EMTHANJENI LOCAL MUNICIPALITY

ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

1. BASIS OF PRESENTATION (Continued)

1. 2 CRITICAL JUDGEMENTS, ESTIMATIONS AND ASSUMPTIONS (continued)

1. 2. 2 *Financial Assets and Liabilities*

The classification of financial assets and liabilities, into categories, is based on judgement by management. Accounting Policy 8.1 on *Financial Assets Classification* and Accounting Policy 8.2 on *Financial Liabilities Classification* describe the factors and criteria considered by the management of the municipality in the classification of financial assets and liabilities.

In making the above-mentioned judgement, management considered the definition and recognition criteria for the classification of financial instruments as set out in IAS 32: *Financial Instruments - Presentation* and IAS 39: *Financial Instruments - Recognition and Measurement*.

1. 2. 3 *Impairment of Financial Assets*

Accounting Policy 8.4 on *Impairment of Financial Assets* describes the process followed to determine the value by which financial assets should be impaired. In making the estimation of the impairment, the management of the municipality considered the detailed criteria of impairment of financial assets as set out in IAS 39: *Financial Instruments - Recognition and Measurement*, and used its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of the reporting period. The management of the municipality is satisfied that the impairment of financial assets recorded during the year is appropriate.

The calculation in respect of the impairment of debtors is based on an assessment of the extent to which debtors have defaulted on payments already due, and an assessment of their ability to make payments based on their creditworthiness.

This was performed per service-identifiable categories across all classes of debtors. The total increase in estimation of the impairment of trade and other receivables from exchange transactions amounted to R16 930 242 and that of trade and other receivable from non exchange transactions to R1 702 538.

1. 2. 4 *Useful lives of Property, Plant and Equipment, Intangible Assets and Investment Property*

As described in Accounting Policies 3.3, 4 and 5 the municipality depreciates / amortises its property, plant and equipment, investment property and intangible assets over the estimated useful lives of the assets, taking into account the residual values of the assets at the end of their useful lives, which is determined when the assets are available for use. The useful lives of assets are based on management's estimation. Management considered the impact of technology, availability of capital funding, service requirements and required return on assets in order to determine the optimum useful life expectation, where appropriate.

The estimation of residual values of assets is based on management's judgement as to whether the assets will be sold or used to the end of their useful lives, and in what condition they will be at that time.

1. 2. 5 *Impairment: Write down of Property, Plant and Equipment and Inventories*

Accounting Policy 6.2 on *Intangible Assets - Subsequent Measurement, Amortisation and Impairment* and Accounting Policy 9.2 on *Inventory - Subsequent measurement* describes the conditions under which non-financial assets are tested for potential impairment losses by the management of the municipality. Significant estimates and judgements are made relating to PPE impairment testing, Intangible assets impairment testing and write down of Inventories to the lowest of Cost and Net Realisable Values (NRV).

EMTHANJENI LOCAL MUNICIPALITY

ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

1. BASIS OF PRESENTATION (Continued)

1. 2 CRITICAL JUDGEMENTS, ESTIMATIONS AND ASSUMPTIONS (continued)

1. 2. 5 *Impairment: Write down of Property, Plant and Equipment and Inventories (continued)*

In making the above-mentioned estimates and judgements, management considered the subsequent measurement criteria and indicators of potential impairment losses as set out in GRAP 21: Impairment of Cash generating Assets and GRAP 26: Impairment of non-Cash generating Assets. In particular, the calculation of the recoverable service amount for PPE and intangible assets and the NRV for inventories involves significant judgment by management. During the year the estimated impairments to Property plant and equipment amounted to R85 195, whilst no impairments were made to intangible assets or inventory.

1. 2. 6 *Water inventory*

The estimation of the water stock in the reservoirs is based on the measurement of water via electronic level sensors, which determines the depth of water in the reservoirs, which is then converted into volumes based on the total capacity of the reservoir. Refer to Note 9 of the accounting policy notes to the Annual Financial Statements.

1. 2. 7 *Defined Benefit Plan Liabilities*

As described in Accounting Policy 21, the municipality obtains actuarial valuations of its defined benefit plan liabilities. The defined benefit obligations of the municipality that were identified are Post-retirement Health Benefit Obligations and Long-service Awards. The estimated liabilities are recorded in accordance with the requirements of IAS 19. Details of the liabilities and the key assumptions made by the actuaries in estimating the liabilities are provided in Notes 21 and 23 to the Annual Financial Statements.

1. 2. 8 *Budget information*

Deviations between budget and actual amounts are regarded as material differences when a 10% deviation exists. All material differences are explained in the notes to the annual financial statements.

1. 3 PRESENTATION CURRENCY

The Annual Financial Statements are presented in South African Rand, rounded off to the nearest Rand, which is the municipality's functional currency.

1. 4 GOING CONCERN ASSUMPTION

The Annual Financial Statements have been prepared on a going concern basis.

1. 5 OFFSETTING

Assets, liabilities, revenues and expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP.

EMTHANJENI LOCAL MUNICIPALITY

ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

1. BASIS OF PRESENTATION (Continued)

1. 6 STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

The following GRAP standards have been issued but are not yet effective and have not been early adopted by the municipality:

GRAP 18 Segment Reporting - issued March 2005
GRAP 20 Related Party Disclosures (Revised)
GRAP 21 Impairment of Non-cash-generating Assets - issued March 2009
GRAP 23 Revenue from Non-Exchange Transactions (Taxes and Transfers) - issued February 2008
GRAP 24 Presentation of Budget Information in Financial Statements - issued November 2007
GRAP 25 Employee Benefits - issued December 2009
GRAP 26 Impairment of Cash-generating Assets - issued March 2009
GRAP 103 Heritage Assets - issued July 2008
GRAP 104 Financial Instruments - issued October 2009
GRAP 105 Transfers between entities under common control - issued November 2010
GRAP 106 Transfers between entities not under common control - issued November 2010
GRAP 107 Mergers - issued November 2010

The Minister of Finance announced that the application of GRAP 21, GRAP 23, GRAP 24, GRAP 26, GRAP 103 and GRAP 104 will be effective for period starting after 1 April 2012. All other standards as listed above will only be effective when a date is announced by the Minister of Finance.

The ASB Directive 5 paragraph 29 sets out the principles for the application of the GRAP 3 guidelines in the determination of the GRAP Reporting Framework hierarchy, as set out in the standard of GRAP 3 on Accounting Policies, Changes in Accounting Estimates and Errors.

The Municipality applied the principles established in the following Standards of GRAP that have been issued, but are not yet in effect, in developing an appropriate accounting policies dealing with the following transactions, but have not early adopted these Standards:

Impairment of Non-cash-generating Assets (GRAP 21 - issued March 2009)
Impairment of Cash-generating Assets (GRAP 26 - issued March 2009)
Revenue from Non-Exchange Transactions (GRAP 23 - issued February 2008)

Management has considered all of the above-mentioned GRAP standards issued but not yet effective and anticipates that the adoption of these standards will not have a significant impact on the financial position, financial performance or cash flows of the municipality. The reasons for this anticipation is due to the following considerations:

Segment Reporting (GRAP 18 - issued March 2005): Management is of the opinion that this Standard will not impact in the fair presentation of the municipality's annual financial statements as segmental reporting is not applicable to the municipality.

Related Party Disclosures (Revised) (GRAP 20): IPSAS 20 principles were used in formulating an appropriate accounting policy and the application of these principles does not significantly differ from GRAP 20.

Impairment of Non-cash-generating Assets (GRAP 21 - issued March 2009): GRAP 21 principles were used in formulating an appropriate accounting policy and the application of these principles does not significantly differ from GRAP 21.

Revenue from Non-Exchange Transactions (GRAP 23 - issued February 2008): GRAP 23 principles were used in formulating an appropriate accounting policy and the application of these principles does not significantly differ from GRAP 23.

Presentation of Budget Information in Financial Statements (GRAP 24 - issued November 2007): GRAP 24 principles were used in formulating an appropriate accounting policy and the application of these principles does not significantly differ from GRAP 24.

Employee Benefits (GRAP 25 - issued December 2009): IAS 19 principles were used in formulating an appropriate accounting policy and the application of these principles does not significantly differ from GRAP 25.

EMTHANJENI LOCAL MUNICIPALITY

ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

BASIS OF PRESENTATION (Continued)

1. 1 STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE (Continued)

Impairment of Cash-generating Assets (GRAP 26 - issued March 2009): GRAP 26 principles were used in formulating an appropriate accounting policy and the application of these principles does not significantly differ from GRAP 26.

Heritage Assets (GRAP 103 - issued July 2008): GRAP 103 principles were used in formulating an appropriate accounting policy. GRAP 103 requires all Heritage Assets to be measured, which will result in the increase of the balance disclosed in the Statement of Financial Position. Due to the expert knowledge required to determine the carrying value of these assets, management cannot determine the financial effect until such valuations have been completed.

Financial Instruments (GRAP 104 Financial Instruments - October 2009): The difference between GRAP 104 and IFRS 7 requirements is only minor disclosure requirements and will not impact materially on the Annual Financial Statements.

Transfers between entities under common control (GRAP 105 - issued November 2010): Management is of the opinion that this Standard will not impact in the fair presentation of the municipality's annual financial statements as no such transfers have ever been recorded.

Transfers between entities not under common control (GRAP 106 - issued November 2010): Management is of the opinion that this Standard will not impact in the fair presentation of the municipality's annual financial statements as no such transfers have ever been recorded.

Mergers (GRAP 107 - issued November 2010): Management is of the opinion that this Standard will not impact in the fair presentation of the municipality's annual financial statements as no such mergers have ever been recorded.

2. ACCUMULATED SURPLUS

Included in the accumulated surplus of the municipality, are the following reserves that are maintained in terms of specific requirements:

2. 1 Revaluation Reserve

The surplus arising from the revaluation of land and buildings is credited to a non-distributable reserve. The revaluation surplus is realised as revalued buildings are depreciated, through a transfer from the revaluation reserve to the accumulated surplus/(deficit). On disposal, the net revaluation surplus is transferred to the accumulated surplus/(deficit) while gains or losses on disposal, based on revalued amounts, are credited or charged to the Statement of Financial Performance.

2. 2 Other Reserves

The Entity creates and maintains reserves in terms of specific requirements.

2. 2. 1 Capital Replacement Reserve (CRR)

In order to finance the provision of infrastructure and other property, plant and equipment from internal sources, amounts are transferred from the accumulated surplus to the CRR in terms of delegated powers.

The following provisions are set for the creation and utilisation of the CRR:

- The cash funds that back up the CRR are invested until utilised. The cash may only be invested in accordance with the investment policy of the Entity.
- The CRR may only be utilised for the purpose of purchasing items of property, plant and equipment, and may not be used for the maintenance of these items.
- Whenever an asset is purchased out of the CRR, an amount equal to the cost price of the asset is transferred from the CRR, and the accumulated surplus is credited by a corresponding amount.
- If a profit is made on the sale of assets other than land, the profit on these assets is reflected in the Statement of Financial Performance, and is then transferred via the Statement of Changes in Net Assets to the CRR, provided that it is cash backed.

Profit on the sale of land is not transferred to the CRR, as it is regarded as revenue.

EMTHANJENI LOCAL MUNICIPALITY

ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

3. PROPERTY, PLANT AND EQUIPMENT

3. 1 Initial Recognition

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one year.

The cost of an item of property, plant and equipment is recognised as an asset if, and only if it is probable that future economic benefits or service potential associated with the item will flow to the municipality, and if the cost or fair value of the item can be measured reliably.

Property, plant and equipment are initially recognised at cost on acquisition date or in the case of assets acquired by grant or donation, deemed cost, being the fair value of the asset on initial recognition. The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by the municipality. Trade discounts and rebates are deducted in arriving at the cost. The cost also includes the necessary costs of dismantling and removing the asset and restoring the site on which it is located, if such an obligation exists.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

The cost of an item of property, plant and equipment acquired in exchange for a non-monetary assets or monetary assets, or a combination of monetary and non-monetary assets is measured at the fair value of the asset given up, unless the fair value of the asset received is more clearly evident. If the acquired item could not be measured at its fair value, its cost is measured at the carrying amount of the asset given up.

Major spare parts and servicing equipment qualify as property, plant and equipment when the municipality expects to use them during more than one period. Similarly, if the major spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment.

3. 2 Subsequent Measurement

Subsequent expenditure relating to property, plant and equipment is capitalised if it is probable that future economic benefits or service potential delivery associated with the subsequent expenditure will flow to the entity and the cost or fair value of the subsequent expenditure can be reliably measured. Subsequent expenditure incurred on an asset is only capitalised when it increases the capacity or future economic benefits associated with the asset. Where the municipality replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component.

Subsequently all property, plant and equipment, excluding land and building and including infrastructure assets, are measured at cost, less accumulated depreciation and accumulated impairment losses.

Infrastructure assets are stated at the depreciated replacement cost.

Subsequent to initial recognition, land and buildings are carried at a revalued amount based on municipal valuations, less any subsequent accumulated depreciation and accumulated impairment losses. Revaluations are performed by external independent valuers with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the Statement of Financial Position date. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset. Revaluations are done every four years or when there is evidence that the fair value of land and buildings changed significantly, which every occurs first.

EMTHANJENI LOCAL MUNICIPALITY

ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

3. PROPERTY, PLANT AND EQUIPMENT (Continued)

3. 2 Subsequent Measurement (Continued)

These changes are recorded as a change in accounting policy in the Statement of Financial Performance. An increase in the carrying amount of land and buildings as a result of a revaluation is credited directly to a revaluation surplus reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

A decrease in the carrying amount of an asset as a result of a revaluation is recognised in surplus or deficit, except to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

Where items of property, plant and equipment have been impaired, the carrying value is adjusted by the impairment loss, which is recognised as an expense in the period that the impairment is identified except where the impairment reverses a previous revaluation.

When revalued assets are sold or retired, the amounts included in the revaluation reserve, in respect of that assets, are transferred to accumulated surplus or deficit.

Gain or loss on the disposal of assets, through compensation from third parties for items of property, plant and equipment that were impaired, lost or given up, is included in surplus or deficit when the compensation becomes receivable.

3. 3 Depreciation

Land is not depreciated as it is regarded as having an unlimited useful life. Depreciation on other assets is calculated on the straight line basis to allocate their depreciable amounts over their useful lives. The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the municipality. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total value of the item shall be depreciated separately. The depreciation rates are based on the following estimated useful lives.

Depreciation only commences when the asset is in the condition and location necessary for it to be used in the manner intended by the municipality.

	Years		Years
Infrastructure		Buildings	
Roads and Paving	10 - 50		5 - 30
Electricity	10 - 30	Other	
Water	10 - 50	Specialist Vehicles	5 - 15
Sewerage	10 - 50	Other Vehicles	5 - 15
Landfill Sites	10 - 25	Office Equipment	3 - 10
		Furniture and Fittings	3 - 15
Community		Watercraft	10 - 15
Recreational Facilities	5 - 30	Bins and Containers	10 - 15
Security	5 - 30	Specialised Plant and Equipment	3 - 10
		Other Items of Plant and Equipment	3 - 10

The assets' residual values, estimated useful lives and depreciation methods are reviewed annually, and adjusted prospectively if appropriate, at each reporting date.

3. 4 Incomplete Construction Work

Incomplete construction work is stated at historical cost. Depreciation only commences when the asset is available for use.

3. 5 Finance Leases

Assets capitalised under finance leases are depreciated over their expected useful lives on the same basis as PPE controlled by the entity or where shorter, the term of the relevant lease if there is no reasonable certainty that the municipality will obtain ownership by the end of the lease term.

EMTHANJENI LOCAL MUNICIPALITY

ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

3. PROPERTY, PLANT AND EQUIPMENT (Continued)

3. 6 Infrastructure Assets

Infrastructure assets are any assets that are part of a network of similar assets. Infrastructure assets are shown at cost less accumulated depreciation and accumulated impairment.

3. 7 Derecognition of property, plant and equipment

The carrying amount of an item of property, plant and equipment is derecognised on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised.

Gains or losses are calculated as the difference between the carrying value of assets (cost less accumulated depreciation and accumulated impairment losses) and the disposal proceeds is included in the Statement of Financial Performance as a gain or loss on disposal of property, plant and equipment.

4. HERITAGE ASSETS

Heritage assets, which are culturally significant resources and which are shown at cost, are not depreciated owing to uncertainty regarding their estimated useful lives. The Municipality assess at each reporting date if there is an indication of impairment.

Subsequent to measurement, heritage assets are carried at cost less impairment losses.

4. 1 Initial Recognition

The cost of an item of heritage assets is recognised as an asset if, and only if it is probable that future economic benefits or service potential associated with the item will flow to the municipality, and if the cost or fair value of the item can be measured reliably.

Heritage assets are initially recognised at cost on its acquisition date or in the case of assets acquired by grant or donation, deemed cost, being the fair value of the asset on initial recognition. The cost of an item of heritage assets is the purchase price and other costs attributable bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by the municipality. Trade discounts and rebates are deducted in arriving at the cost. The cost also includes the necessary costs of dismantling and removing the asset and restoring the site on which it is located.

The cost of an item of heritage assets acquired in exchange for a non-monetary assets or monetary assets, or a combination of monetary and non-monetary assets is measured at the fair value of the asset given up, unless the fair value of the asset received is more clearly evident. If the acquired item could not be measured at its fair value, its cost is measured at the carrying amount of the asset given up.

4. 2 Subsequent Measurement

Subsequent expenditure relating to heritage assets is capitalised if it is probable that future economic benefits or service potential delivery associated with the subsequent expenditure will flow to the entity and the cost or fair value of the subsequent expenditure can be reliably measured. Subsequent expenditure incurred on an asset is only capitalised when it increases the capacity or future economic benefits associated with the asset. Where the municipality replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component.

Subsequently all heritage assets are measured at cost, less accumulated impairment losses.

EMTHANJENI LOCAL MUNICIPALITY

ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

4. HERITAGE ASSETS

4. 3 Derecognition of Heritage assets

The carrying amount of an item of heritage assets is derecognised on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of an item of heritage assets is included in surplus or deficit when the item is derecognised. Gains are not classified as revenue.

Gains or losses are calculated as the difference between the carrying value of assets (cost less accumulated impairment losses) and the disposal proceeds are included in the Statement of Financial Performance as a gain or loss on disposal of heritage assets.

5. INTANGIBLE ASSETS

5. 1 Initial Recognition

An intangible asset is a identifiable non-monetary assets without physical substance are classified and recognised as intangible assets. The municipality recognises an intangible asset in its Statement of Financial Position only when it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality and the cost or fair value of the asset can be measured reliably.

Internally generated intangible assets are subject to strict recognition criteria before they are capitalised. Research expenditure is recognised as an expense when incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when the following criteria are fulfilled:

- it is technically feasible to complete the intangible asset so that it will be available for use;
- management intends to complete the intangible asset and use or sell it;
- there is an ability to use or sell the intangible asset;
- it can be demonstrated how the intangible asset will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; and
- the expenditure attributable to the intangible asset during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognised as an expense when incurred. Development costs previously recognised as an expense are not recognised as an asset in subsequent periods. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight-line basis over its useful life, not exceeding five years. Development assets are tested for impairment annually, in accordance with GRAP 21 / GRAP 26.

Intangible assets are initially recognised at cost. The cost of an intangible asset is the purchase price and other costs attributable to bring the intangible asset to the location and condition necessary for it to be capable of operating in the manner intended by the municipality, or where an intangible asset is acquired at no cost, or for a nominal cost, the cost shall be its fair value as at the date of acquisition. Trade discounts and rebates are deducted in arriving at the cost. Intangible assets acquired separately or internally generated are reported at cost less accumulated amortisation and accumulated impairment losses. The cost of an intangible asset acquired in exchange for non-monetary assets or monetary assets, or a combination of monetary and non-monetary assets is measured at the fair value of the asset given up, unless the fair value of the asset received is more clearly evident. If the acquired item could not be measured at its fair value, its cost is measured at the carrying amount of the asset given up. If the acquired item's fair value was not determinable, its deemed cost is the carrying amount of the asset(s) given up.

EMTHANJENI LOCAL MUNICIPALITY

ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

5. INTANGIBLE ASSETS

5. 2 Subsequent Measurement, Amortisation and Impairment

After initial recognition, an intangible asset is carried at its cost less any accumulated amortisation and any accumulated impairment losses.

Expenditure on an intangible item that was initially recognised as an expense shall not be recognised as part of the cost of an intangible asset at a later date.

In terms of GRAP 102, intangible assets are distinguished between internally generated intangible assets and other intangible assets. It is further distinguished between indefinite or finite useful lives. Amortisation is charged on a straight-line basis over the intangible assets' useful lives (when the intangible asset is available for use), which are estimated to be between 3 to 5 years. The residual value of assets with finite useful lives is zero, unless an active market exists. Where intangible assets are deemed to have an indefinite useful life, such intangible assets are not amortised, however such intangible assets are subject to an annual impairment test. The useful lives per category of intangible assets are detailed below:

<i>Intangible Asset</i>	Years
Software	3 - 5

Intangible assets are annually tested for impairment. Where items of intangible assets have been impaired, the carrying value is adjusted by the impairment loss, which is recognised as an expense in the period that the impairment is identified. The impairment loss is the difference between the carrying amount and the recoverable amount of the asset.

The estimated useful life, residual values and amortisation method are reviewed annually at the end of the financial year. Any adjustments arising from the annual review are applied prospectively as a change in accounting estimate in the Statement of Financial Performance.

5. 3 Derecognition

Intangible assets are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an intangible asset is determined as the difference between the net disposal proceeds and the carrying value and is recognised in the Statement of Financial Performance.

6. INVESTMENT PROPERTY

6. 1 Initial Recognition

Investment property includes property (land or a building, or part of a building, or both land or buildings held under a finance lease) held to earn rentals and/or for capital appreciation, rather than held to meet service delivery objectives, the production or supply of goods or services, or the sale of an asset in the ordinary course of operations.

At initial recognition, the municipality measures investment property at cost including transaction costs once it meets the definition of investment property. However, where an investment property was acquired through a non-exchange transaction (i.e. where it acquired the investment property for no or a nominal value), its cost is its fair value as at the date of acquisition.

EMTHANJENI LOCAL MUNICIPALITY

ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

6. INVESTMENT PROPERTY (Continued)

6. 1 Initial Recognition (Continued)

Based on management's judgement, the following criteria have been applied to distinguish investment properties from owner occupied property or property held for resale:

- All properties held to earn market-related rentals or for capital appreciation or both and that are not used for administrative purposes and that will not be sold within the next 12 months are classified as Investment Properties;
- Land held for a currently undetermined future use. (If the Municipality has not determined that it will use the land as owner-occupied property or for short-term sale in the ordinary course of business, the land is regarded as held for capital appreciation);
- A building owned by the entity (or held by the entity under a finance lease) and leased out under one or more operating leases (this will include the property portfolio rented out by the Housing Board on a commercial basis on behalf of the municipality); and
- A building that is vacant but is held to be leased out under one or more operating leases on a commercial basis to external parties.

The following assets do not fall in the ambit of Investment Property and shall be classified as Property, Plant and Equipment, Inventory or Non-Current Assets Held for Sale, as appropriate:

- Property intended for sale in the ordinary course of operations or in the process of construction or development for such sale;
- Property being constructed or developed on behalf of third parties;
- Owner-occupied property, including (among other things) property held for future use as owner-occupied property, property held for future development and subsequent use as owner-occupied property, property occupied by employees such as housing for personnel (whether or not the employees pay rent at market rates) and owner-occupied property awaiting disposal;
- Property that is being constructed or developed for future use as investment property;
- Property that is leased to another entity under a finance lease;
- Property held to provide a social service and which also generates cash inflows, e.g. property rented out below market rental to sporting bodies, schools, low income families, etc; and
- Property held for strategic purposes or service delivery.

6. 2 Subsequent Measurement - Fair Value Model

Investment property is measured using the fair value model. Investment property is carried at fair value, representing open market value determined by external valuers at the date of the last general valuation (1 July 2009). Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. A gain or loss arising from a change in the fair value of investment property is included in surplus or deficit for the period in which it arises. The circumstances surrounding the investment properties is considered annually to establish whether conditions and circumstances changed that may effect the fair value significantly. If such indications are identified, the investment properties are valued to establish the fair value thereof.

6. 3 Derecognition

Investment property shall be derecognised (eliminated from the statement of financial position) on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential is expected from its disposal.

7. IMPAIRMENT OF ASSETS

The entity classifies all assets held with the primary objective of generating a commercial return as cash-generating assets. All other assets are classified as non-cash-generating assets.

EMTHANJENI LOCAL MUNICIPALITY

ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

7. IMPAIRMENT OF ASSETS (Continued)

7. 1 Impairment of Cash Generating Assets

The municipality assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the individual asset.

In assessing whether there is any indication that an asset may be impaired, the municipality considers the following indications:

- during the period, an asset's market value has declined significantly more than would be expected as a result of the passage of time or normal use;
- significant changes with an adverse effect on the entity have taken place during the period, or will take place in the near future, in the technological, market, economic or legal environment in which the entity operates or in the market to which an asset is dedicated;
- market interest rates or other market rates of return on investments have increased during the period, and those increases are likely to affect the discount rate used in calculating an asset's value in use and decrease the asset's recoverable amount materially;
- evidence is available of obsolescence or physical damage of an asset;
- significant changes with an adverse effect on the entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used. These changes include the asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs, plans to dispose of an asset before the previously expected date, and reassessing the useful life of an asset as finite rather than indefinite; and
- evidence is available from internal reporting that indicates that the economic performance of an asset is, or will be, worse than expected.

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of the cash-generating unit to which the asset belongs is determined. The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use.

The best evidence of fair value less cost to sell is the price in a binding sale agreement in an arms length transaction, adjusted for the incremental cost that would be directly attributable to the disposal of the asset.

The asset's value in use is determined by calculating the present value of the estimated future cash flows expected to be derived from the continuing use of the asset and from its disposal at the end of its useful life.

If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in surplus or deficit.

An impairment of assets carried at revalued amount in reduces the revaluation surplus for that asset. The decrease shall be debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

The impairment loss is allocated to reduce the carrying amount of the assets of the unit as follows:

- to the assets of the unit, pro rata on the basis of the carrying amount of each asset in the unit.

A municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets may no longer exist or may have decreased. If any such indication exists, the recoverable amounts of those assets are estimated.

The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation is recognised immediately in surplus or deficit. Any reversal of an impairment loss of a revalued asset is treated as a revaluation increase.

7. IMPAIRMENT OF ASSETS (Continued)

EMTHANJENI LOCAL MUNICIPALITY

ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

7. 2 Impairment of Non-Cash Generating Assets

The municipality assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

In assessing whether there is any indication that an asset may be impaired, the municipality considers the following indications:

- cessation, or near cessation, of the demand or need for services provided by the asset;
- significant long-term changes with an adverse effect on the entity have taken place during the period or will take place in the near future, in the technological, legal or government policy environment in which the entity operates;
- evidence is available of physical damage of an asset;
- significant long-term changes with an adverse effect on the entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used. These changes include the asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs, or plans to dispose of an asset before the previously expected date;
- a decision to halt the construction of the asset before it is complete or in a usable condition; and
- evidence is available from internal reporting that indicates that the service performance of an asset is, or will be, significantly worse than expected.

If there is any indication that an asset may be impaired, the recoverable service amount is estimated for the individual asset. If it is not possible to estimate the recoverable service amount of the individual asset, the recoverable service amount of the cash-generating unit to which the asset belongs is determined.

The recoverable service amount is the higher of a non-cash generating asset's fair value less costs to sell and its value in use. The value in use for a non-cash generating asset is the present value of the asset's remaining service potential.

The remaining service potential is determined by using the approach (as listed below) which is the most appropriate in measuring the value:

- **Depreciated replacement cost approach:** The present value of the remaining service potential of the asset is determined as the depreciated replacement cost of the asset. The replacement cost of the asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition.
- **Restoration cost approach:** This is the cost of restoring the service potential of an asset to its pre-impaired level. The present value of the remaining service potential of the asset is determined by subtracting the estimated restoration cost of the asset from the current cost of replacing the remaining service potential of the asset before impairment.
- **Service units approach:** The present value of the remaining service potential of the asset is determined by reducing the current cost of the remaining service potential of the asset before impairment, to conform with the reduced number of service units expected from the asset in its impaired state.

If the recoverable service amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in surplus or deficit. Any impairment loss of a revalued asset is treated as a revaluation decrease.

The impairment loss is allocated to reduce the carrying amount of the assets of the unit as follows:

- to the assets of the unit, pro rata on the basis of the carrying amount of each asset in the unit.

A municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets may no longer exist or may have decreased. If any such indication exists, the recoverable service amounts of those assets are estimated.

The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

EMTHANJENI LOCAL MUNICIPALITY

ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

7. IMPAIRMENT OF ASSETS (Continued)

7. 2 Impairment of Non-Cash Generating Assets (Continued)

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation is recognised immediately in surplus or deficit. After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the asset is adjusted in future periods to allocate the asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life. Any reversal of an impairment loss of a revalued asset is treated as a revaluation increase.

The redesignation of assets from a cash-generating asset to a non-cashgenerating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

8. FINANCIAL INSTRUMENTS

The municipality has various types of financial instruments and these can be broadly categorised as either financial assets, financial liabilities or equity instruments in accordance with the substance of the contractual agreement . The municipality only recognises a financial instrument when it becomes a party to the contractual provisions of the instrument.

8. 1 Financial Assets - Classification

A financial asset is any asset that is cash or a contractual right to receive cash.

In accordance with IAS 39.09 the Financial Assets of the municipality are classified as follows into the four categories allowed by this standard:

Loans and Receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months, which are classified as non-current assets. Loans and receivables are initially recognised at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset. After initial recognition Financial Assets are measured at amortised cost, using the effective interest rate method less a provision for impairment.

Held-to-Maturity Investments are financial assets with fixed or determinable payments and fixed maturity where the municipality has the positive intent and ability to hold the investment to maturity.

Financial assets at fair value through profit or loss are financial assets that meet either of the following conditions:

- they are classified as held for trading; or
- upon initial recognition they are designated as at fair value through the Statement of Financial Performance.

Available for sale investments are financial assets that are designated as available for sale or are not classified as:

- Loans and Receivables;
- Held-to-Maturity Investments; or
- Financial assets at fair value through profit and loss

The municipality has the following types of financial assets as reflected on the face of the Statement of Financial Position or in the notes thereto:

Type of Financial Asset	Classification in terms of IAS 39.09
Short-term Investment Deposits – Call	Held-to-maturity investments
Bank Balances and Cash	Loans and receivables
Long-term Receivables	Loans and receivables
Consumer Debtors	Loans and receivables
Other Debtors	Loans and receivables
Investments in Fixed Deposits	Held-to-maturity investments

EMTHANJENI LOCAL MUNICIPALITY

ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

8. FINANCIAL INSTRUMENTS (Continued)

8. 1 Financial Assets - Classification (Continued)

Cash includes cash on hand (including petty cash) and cash with banks (including call deposits). Cash equivalents are short-term highly liquid investments, readily convertible into known amounts of cash, that are held with registered banking institutions and are subject to an insignificant risk of change in value. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held on call with banks, net of bank overdrafts. The municipality categorises cash and cash equivalents as financial assets: loans and receivables.

8. 2 Financial Liabilities - Classification

A financial liability is a contractual obligation to deliver cash or another financial asset to another entity. The municipality has the following types of financial liabilities as reflected on the face of the Statement of Financial Position or in the notes thereto:

▪ Long-term Liabilities	Other financial liabilities (Financial liabilities measured at amortised cost)
▪ Certain Other Creditors	Other financial liabilities (Financial liabilities measured at amortised cost)
▪ Bank Overdraft	Other financial liabilities (Financial liabilities measured at amortised cost)
▪ Consumer Deposits	Financial liabilities at fair value through profit and loss

There are three main categories of *Financial Liabilities*, the classification determining how they are measured. Financial liabilities may be measured at:

- (i) Fair value through profit or loss; or
- (ii) Other financial liabilities (Financial liabilities measured at amortised cost)
- (iii) Financial guarantee contract

Financial liabilities that are measured at fair value through profit or loss are financial liabilities that are essentially held for trading (i.e. purchased with the intention to sell or repurchase in the short term; derivatives other than hedging instruments or are part of a portfolio of financial instruments where there is recent actual evidence of short-term profiteering or are derivatives).

Any other financial liabilities are classified as "Other financial liabilities" in accordance with IAS 39.09

Bank overdrafts are recorded based on the facility utilised. Finance charges on bank overdrafts are expensed as incurred.

8. 3 Initial and Subsequent Measurement

8. 3. 1 Financial Assets:

Held-to-maturity Investments are initially measured at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset. Subsequently, these assets are measured at amortised cost using the Effective Interest Method less any impairment, with revenue recognised on an effective yield basis.

Financial assets at fair value through profit or loss are initially and subsequently recognised at fair value and changes in fair value recognised directly through profit or loss.

Loans and Receivables are initially measured at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset. Subsequently, these assets are measured at amortised cost using the Effective Interest Method less any impairment, with interest recognised on an effective yield basis. .

Trade and other receivables (excluding Value Added Taxation, prepayments and operating lease receivables), loans to Municipality entities and loans that have fixed and determinable payments that are not quoted in an active market are classified as loans and receivables.

EMTHANJENI LOCAL MUNICIPALITY

ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

8. FINANCIAL INSTRUMENTS (Continued)

8. 3 Initial and Subsequent Measurement (Continued)

8. 3. 1 *Financial Assets (Continued):*

Available-for-Sale Financial Assets are initially measured at fair value plus directly attributable transaction costs. They are subsequently measured at fair value with unrealised gains or losses recognised directly in equity until the investment is derecognised, at which time the cumulative gain or loss recorded in equity is recognised in the statement of financial performance, or determined to be impaired, at which time the cumulative loss recorded in equity is recognised in the statement of financial performance.

8. 3. 2 *Financial Liabilities:*

Financial liabilities

Financial liabilities that are measured at fair value through profit or loss stated at fair value, with any resulted gain or loss recognised in the Statement of Financial Performance.

Financial Liabilities held at amortised cost

Any other financial liabilities are classified as "Other financial liabilities" (All payables, loans and borrowings are classified as other liabilities) and are initially measured at fair value, net of transaction costs. Trade and other payables, interest bearing debt including finance lease liabilities, non-interest bearing debt and bank borrowings are subsequently measured at amortised cost using the effective interest rate method. Interest expense is recognised in the Statement of Financial Performance by applying the effective interest rate.

Bank borrowings, consisting of interest-bearing short-term bank loans, repayable on demand and overdrafts are recorded at the proceeds received. Finance costs are accounted for using the accrual basis and are added to the carrying amount of the bank borrowing to the extent that they are not settled in the period that they arise.

Prepayments are carried at cost less any accumulated impairment losses.

Financial guarantee contract

Financial guarantee contracts represent contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when they are contractually due.

Financial guarantee contract liabilities are initially measured at fair value.

The subsequent measurement of financial guarantee contracts is the higher of the amount determined in accordance with the policy on provisions as set out below, or the amount initially recognised less when appropriate cumulative amortisation.

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence of impairment of Financial Assets (such as the probability of insolvency or significant financial difficulties of the debtor). If there is such evidence the recoverable amount is estimated and an impairment loss is recognised in accordance with IAS 39.

EMTHANJENI LOCAL MUNICIPALITY

ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

8. FINANCIAL INSTRUMENTS (Continued)

8. 4 Impairment of Financial Assets

The following observable data is considered by the municipality:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group,

Available-for-sale financial assets

When a decline in the fair value of an available-for-sale financial asset has been recognised directly in net assets and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in net assets shall be removed and recognised in the Statement of Financial Performance even though the financial asset has not been derecognised.

Financial assets carried at amortised cost

Accounts receivables encompasses long term debtors, consumer debtors and other debtors.

Initially Accounts Receivable are valued at fair value and subsequently carried at amortised cost using the effective interest rate method. An estimate is made for doubtful debt based on past default experience of all outstanding amounts at year-end. Bad debts are written off the year in which they are identified as irrecoverable. Amounts receivable within 12 months from the date of reporting are classified as current.

A provision for impairment of accounts receivables is established when there is objective evidence that the municipality will not be able to collect all amounts due according to the original terms of receivables. The provision is made in accordance with IAS 39.64 whereby the recoverability of accounts receivable is assessed individually and then collectively after grouping the assets in financial assets with similar credit risk characteristics. The amount of the provision is the difference between the financial asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Cash flows relating to short-term receivables are not discounted where the effect of discounting is immaterial.

Government accounts are not provided for as such accounts are regarded as receivable besides taking into consideration any dispute.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets carried at amortised cost with the exception of consumer debtors, where the carrying amount is reduced through the use of an allowance account. When a consumer debtor is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against revenue. Changes in the carrying amount of the allowance account are recognised in the Statement of Financial Performance.

With the exception of Available-for-Sale equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the Statement of Financial Performance to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

EMTHANJENI LOCAL MUNICIPALITY

ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

8. FINANCIAL INSTRUMENTS (Continued)

8. 5 Derecognition of Financial Assets

The municipality derecognises Financial Assets only when the contractual rights to the cash flows from the asset expire or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity, except when Council approves the write-off of Financial Assets due to non recoverability.

If the municipality neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the municipality recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the municipality retains substantially all the risks and rewards of ownership of a transferred financial asset, the municipality continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

8. 6 Derecognition of Financial Liabilities

The municipality derecognises Financial Liabilities when, and only when, the municipality's obligations are discharged, cancelled or they expire.

The municipality recognises the difference between the carrying amount of the financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, in the Statement of Financial Performance.

9. INVENTORIES

9. 1 Initial Recognition

Inventories comprise current assets held for sale and current assets for consumption or distribution during the ordinary course of business. Inventories are initially recognised at cost. Cost generally refers to the purchase price, plus non-refundable taxes, transport costs and any other costs in bringing the inventories to their current location and condition. Where inventory is manufactured, constructed or produced, the cost includes the cost of labour, materials and overheads used during the manufacturing process.

Where inventory is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of the item on the date acquired.

Direct costs relating to properties that will be sold as inventory are accumulated for each separately identifiable development. Costs also include a proportion of overhead costs.

9. 2 Subsequent Measurement

Consumable stores

Consumable stores are valued at the lower of cost and net realisable value (net amount that an entity expects to realise from the sale on inventory in the ordinary course of business). In general, the basis of determining cost is the weighted average cost of commodities. If inventories are to be distributed at no charge or for a nominal charge they are valued at the lower of cost and current replacement cost.

EMTHANJENI LOCAL MUNICIPALITY

ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

9. INVENTORIES (Continued)

9. 2 Subsequent Measurement (Continued)

Water inventory

Water is recognised as inventory when the municipality purchases water in bulk with the intention to resell it to the consumers or to use it internally, or where the municipality has incurred purification costs on water obtained from natural resources (rain, rivers, springs, boreholes etc.). However, water in dams, that are filled by natural resources and that has not yet been treated, and is under the control of the municipality but can not be measured reliably as there is no cost attached to the water, and it is therefore not recognised in the statement of financial position.

The basis of determining the cost of water purchased and not yet sold at statement of financial position date comprises all costs of purchase, cost of conversion and other costs incurred in bringing the inventory to its present location and condition, nett of trade discounts and rebates.

Water and purified effluent are valued by using the weighted average cost method, at the lowest of purified cost and net realisable value, insofar as it is stored and controlled in reservoirs at year-end.

Unsold properties

Unsold properties are valued at the lower of cost and net realisable value on a weighted average cost basis. Direct costs are accumulated for each separately identifiable development. Cost also includes a portion of overhead costs, if this relates to development.

Redundant and slow-moving inventories

Redundant and slow-moving inventories are identified and written down from cost to net realisable value with regard to their estimated economic or realisable values and sold by public auction. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Differences arising on the valuation of inventory are recognised in the Statement of Financial Performance in the year in which they arise. The amount of any reversal of any write-down of inventories arising from an increase in net realisable value or current replacement cost is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

The carrying amount of inventories is recognised as an expense in the period that the inventory was sold, distributed, written off or consumed, unless that cost qualifies for capitalisation to the cost of another asset.

10. REVENUE RECOGNITION

10. 1 General

Revenue, excluding value-added taxation where applicable, is derived from a variety of sources which include rates levied, grants from other tiers of government and revenue from trading activities and other services provided. Revenue is recognised when it is probable that future economic benefits or service potential will flow to the municipality and these benefits can be measured reliably, except when specifically stated otherwise.

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the municipality's activities. Revenue is shown net of value-added tax, returns, rebates and discounts.

The municipality recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the municipality and when specific criteria have been met for each of the municipalities' activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The municipality bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement. Furthermore services rendered are recognised by reference to the stage of completion of the transaction at the reporting date.

EMTHANJENI LOCAL MUNICIPALITY

ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

10. REVENUE RECOGNITION (Continued)

10. 1 General (Continued)

Revenue from exchange transactions refers to revenue that accrued to the municipality directly in return for services rendered / goods sold, the value of which approximates the consideration received or receivable.

Revenue from non-exchange transactions refers to transactions where the municipality received revenue from another entity without directly giving approximately equal value in exchange. Revenue from non-exchange transactions is generally recognised to the extent that the related receipt or receivable qualifies for recognition as an asset and there is no liability to repay the amount.

10. 2 Revenue from Exchange Transactions

10. 2. 1 Service Charges

Service charges relating to solid waste, sanitation and sewage are levied in terms of the approved tariffs.

Service charges relating to electricity and water are based on consumption. Meters are normally read on a monthly basis and are recognised as revenue when invoiced. Where meters are not read monthly, provisional estimates of consumption, based on the consumption history, are made monthly when meter readings have not been performed. The provisional estimates of consumption are recognised as revenue when invoiced, except at year-end when estimates of consumption up to year-end are recorded as revenue without being invoiced. Adjustments to provisional estimates of consumption are made in the invoicing period in which meters have been read. These adjustments are recognised as revenue in the invoicing period. In respect of estimates of consumption between the last reading date and the reporting date, an accrual is made based on the average monthly consumption of consumers.

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff to each property that has improvements. Tariffs are determined per category of property usage, and are levied monthly based on the number of refuse containers on each property, regardless of whether or not all containers are emptied during the month.

Service charges from sewerage and sanitation are based on the type of service and the number of sewer connections on all developed property, using the tariffs approved by Council and are levied monthly.

In circumstances where services cannot readily be measured and quantified, a flat rate service charge is levied monthly on such properties.

10. 2. 2 Pre-paid Electricity

Revenue from the sale of electricity pre-paid meter cards are recognised at the point of sale. An adjustment for an unutilised portion is made at year-end based on the average consumption history.

10. 2. 3 Finance income

Interest earned on investments is recognised in the Statement of Financial Performance on the time proportionate basis that takes into account the effective yield on the investment.

Interest earned on the following investments is not recognised in the Statement of Financial Performance:

- Interest earned on trust funds is allocated directly to the fund.
- Interest earned on unutilised conditional grants is allocated directly to the creditor: unutilised conditional grants, if the grant conditions indicate that interest is payable to the funder.

10. 2. 4 Tariff Charges

Revenue arising from the application of the approved tariff charges is recognised when the relevant service is rendered by applying the relevant authorised tariff. This includes the issuing of licences and permits.

EMTHANJENI LOCAL MUNICIPALITY

ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

10. REVENUE RECOGNITION (Continued)

10. 2 Revenue from Exchange Transactions (Continued)

10. 2. 5 Income from Agency Services

Income for agency services is recognised on a monthly basis once the income collected on behalf of agents has been quantified. The income recognised is in terms of the agency agreement.

10. 2. 6 Sale of Goods (including Houses)

Revenue from the sale of goods is recognised when all the following conditions have been met:

- The municipality has transferred to the buyer the significant risks and rewards of ownership of the goods.
- The municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold.
- The amount of revenue can be measured reliably.
- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality.
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

10. 2. 7 Rentals

Revenue from the rental of facilities and equipment is recognised on a straight-line basis over the term of the lease agreement.

10. 2. 8 Dividends

Dividends are recognised on the date that the municipality becomes entitled to receive the dividend in accordance within the substance of the relevant agreement, where applicable.

10. 3 Revenue from Non-exchange Transactions

An inflow of resources from a non-exchange transaction, that meets the definition of an asset shall be recognised as an asset when it is probable that the future economic benefits or service potential associated with the asset will flow to the municipality and the fair value of the asset can be measured reliably. The asset shall be recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

A present obligation arising from a non-exchange transaction that meets the definition of a liability will be recognised as a liability when it is probable that an outflow of economic benefit will be required to settle the obligation and a reliable estimate of the amount can be made.

10. 3. 1 Rates and Taxes

Revenue from property rates is recognised when the legal entitlement to this revenue arises. Collection charges are recognised when such amounts are legally enforceable. Penalty interest on unpaid rates is recognised on a time proportion basis with reference to the principal amount receivable and effective interest rate applicable. A composite rating system charging different rate tariffs is employed. Rebates are granted to certain categories of ratepayers and are deducted from revenue.

10. 3. 2 Fines

Fines constitute both spot fines and summonses. Revenue from spot fines and summonses is recognised when payment is received, together with management's best estimate of the probable inflows from the amounts not yet collected.

EMTHANJENI LOCAL MUNICIPALITY

ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

10. REVENUE RECOGNITION (Continued)

10. 3 Revenue from Non-exchange Transactions (Continued)

10. 3. 3 Public contributions

Donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. Where the agreement contains a stipulation to return the asset, other future economic benefits or service potential, in the event of non-compliance to these stipulations and would be enforced by the transferor, a liability is recognised to the extent that the criteria, conditions or obligations have not been met. Where such requirements are not enforceable, or where past experience has indicated that the transferor has never enforced the requirement to return the transferred asset, other future economic benefits or service potential when breaches have occurred, the stipulation will be considered a restriction and is recognised as revenue.

10. 3. 4 Government Grants and receipts

Equitable share allocations are recognised when the municipality has a right to receipt.

Conditional grants and receipts of a capital nature

Conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. Where the agreement contains a stipulation to return the asset, other future economic benefits or service potential, in the event of non-compliance to these stipulations and would be enforced by the transferor, a liability is recognised to the extent that the criteria, conditions or obligations have not been met.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the municipality with no future related costs are recognised in the Statement of Financial Performance in the period in which they become receivable.

Revenue is recognised when all conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items of property, plant and equipment are brought into use.

10. 3. 5 Revenue from Recovery of Unauthorised, Irregular, Fruitless and Wasteful Expenditure

Revenue from the recovery of unauthorised, irregular, fruitless and wasteful expenditure is based on legislated procedures, including those set out in the Municipal Finance Management Act (Act No.56 of 2003) and is recognised when the recovery thereof from the responsible councillors or officials is virtually certain.

11. PROVISIONS

Provisions for environmental restoration, rehabilitation, restructuring costs and legal claims are recognised when the municipality has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the obligation.

The best estimate of the expenditure required to settle the present obligation is the amount that an entity would rationally pay to settle the obligation at the reporting date or to transfer it to a third party at that time and are determined by the judgment of the management of the entity, supplemented by experience of similar transactions and, in some cases, reports from independent experts. The evidence considered includes any additional evidence provided by events after the reporting date. Uncertainties surrounding the amount to be recognised as a provision are dealt with by various means according to the circumstances. Where the provision being measured involves a large population of items, the obligation is estimated by weighting all possible outcomes by their associated probabilities.

EMTHANJENI LOCAL MUNICIPALITY

ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

11. PROVISIONS (Continued)

Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of assets are not taken into account in measuring a provision. Provisions are not recognised for future operating losses. The present obligation under an onerous contract is recognised and measured as a provision. An onerous contract is a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it - this unavoidable cost resulting from the contract is the amount of the provision to be recognised.

Provisions are reviewed at reporting date and the amount of a provision is the present value of the expenditure expected to be required to settle the obligation. When the effect of discounting is material, provisions are determined by discounting the expected future cash flows that reflect current market assessments of the time value of money. The impact of the periodic unwinding of the discount is recognised in the Statement of Financial Performance as a finance cost as it occurs.

Environmental rehabilitation provisions

Estimated long-term environmental provisions, comprising rehabilitation and landfill site closure, are based on the Entity's policy, taking into account current technological, environmental and regulatory requirements. The provision for rehabilitation is recognised as and when the environmental liability arises. To the extent that the obligations relate to the asset, they are capitalised as part of the cost of those assets. Any subsequent changes to an obligation that did not relate to the initial related asset are charged to the Statement of Financial Performance.

12. EMPLOYEE BENEFITS

12.1 Short-term Employee Benefits

Remuneration to employees is recognised in the Statement of Financial Performance as the services are rendered, except for non-accumulating benefits, which are only recognised when the specific event occurs.

The municipality treats its provision for leave pay as an accrual.

The costs of all short-term employee benefits such as leave pay, are recognised during the period in which the employee renders the related service. The liability for leave pay is based on the total accrued leave days at year end and is shown as a creditor in the Statement of Financial Position. The municipality recognises the expected cost of performance bonuses only when the municipality has a present legal or constructive obligation to make such payment and a reliable estimate can be made.

12.2 Post employment benefits

The municipality provides retirement benefits for its employees and councillors, and has both defined benefit and defined contribution post employment plans.

12.2.1 Defined Contribution Plans

A **defined contribution plan** is a plan under which the municipality pays fixed contributions into a separate entity. The municipality has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to service in the current or prior periods.

The municipality's contributions to the defined contribution funds are established in terms of the rules governing those plans. Contributions are recognised in the Statement of Financial Performance in the period in which the service is rendered by the relevant employees. The municipality has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

EMTHANJENI LOCAL MUNICIPALITY

ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

12. EMPLOYEE BENEFITS (Continued)

12.3 Defined Benefit Plans

A **defined benefit plan** is a post- employment benefit plan other than a defined contribution plan.

12.3.1 Post-retirement Health Care Benefits:

The municipality has an obligation to provide Post-retirement Health Care Benefits to certain of its retirees. According to the rules of the Medical Aid Funds, with which the municipality is associated, a member (who is on the current Conditions of Service), on retirement, is entitled to remain a continued member of the Medical Aid Fund, in which case the municipality is liable for a certain portion of the medical aid membership fee.

The defined benefit liability is the aggregate of the present value of the defined benefit obligation and unrecognised actuarial gains and losses, reduced by unrecognised past service costs. The plan is unfunded. The present value of the defined benefit obligation is calculated using the projected unit credit method, incorporating actuarial assumptions and a discount rate based on the government bond rate. Valuations of these obligations are carried out every year by independent qualified actuaries.

Past-service costs are recognised immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

12.3.2 Long-service Allowance

The municipality has an obligation to provide Long-service Allowance Benefits to all of its employees. According to the rules of the Long-service Allowance Scheme, which the municipality instituted and operates, an employee (who is on the current Conditions of Service), is entitled to a cash allowance, calculated in terms of the rules of the scheme, after 10, 15, 20, 25 and 30 years of continued service. The municipality's liability is based on an actuarial valuation. The projected unit credit method has been used to value the liabilities. Actuarial gains and losses on the long-term incentives are accounted for through the statement of financial performance. Valuations are performed on an annual basis.

12.3.3 Provincially-administered Defined Benefit Plans

The municipality contributes to various National- and Provincial-administered Defined Benefit Plans on behalf of its qualifying employees. These funds are multi-employer funds (refer to Note 55 of the Annual Financial Statements for details). The contributions to fund obligations for the payment of retirement benefits are charged against revenue in the year they become payable. These defined benefit funds are actuarially valued triennially on the Projected Unit Credit Method basis. Deficits are recovered through lump sum payments or increased future contributions on a proportional basis from all participating municipalities.

12.3.4 Defined benefit pension plans

The municipality has an obligation to provide Post-retirement pension benefits to certain of its retirees. Pension contributions in respect of employees who were not members of a pension fund are recognised as an expense when incurred. Staff provident funds are maintained to accommodate personnel who, due to age, cannot join or be part of the various pension funds. The Entity contributes monthly to the funds.

EMTHANJENI LOCAL MUNICIPALITY

ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

12. EMPLOYEE BENEFITS (Continued)

12.3 Defined Benefit Plans (Continued)

12.3.4 *Defined benefit pension plans (Continued)*

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets, together with adjustments for unrecognised past-service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

Actuarial gains or losses are accounted for using the "corridor method". Actuarial gains and losses are eligible for recognition in the Statement of Financial Performance to the extent that they exceed 10 per cent of the present value of the gross defined benefit obligations in the scheme at the end of the previous reporting period. Actuarial gains and losses exceeding 10 per cent are spread over the expected average remaining working lives of the employees participating in the scheme.

Past-service costs are recognised immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

13. LEASES

Lease Classification

Leases are classified as finance leases where substantially all the risks and rewards associated with ownership of an asset are transferred to the municipality.

Leases of property, plant and equipment, in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases.

13.1 The Municipality as Lessee

Finance leases

Where the Municipality enters into a finance lease, Property, plant and equipment subject to finance lease agreements are capitalised at amounts equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. Corresponding liabilities are included in the Statement of Financial Position as Finance Lease Liabilities. The corresponding liabilities are initially recognised at the inception of the lease and are measured as the sum of the minimum lease payments due in terms of the lease agreement, discounted for the effect of interest. In discounting the lease payments, the municipality uses the interest rate that exactly discounts the lease payments and unguaranteed residual value to the fair value of the asset plus any direct costs incurred. Lease payments are allocated between the lease finance cost and the capital repayment using the effective interest rate method. Lease finance costs are expensed when incurred.

Subsequent to initial recognition, the leased assets are accounted for in accordance with the stated accounting policies applicable to property, plant and equipment. The lease liability is reduced by the lease payments, which are allocated between the lease finance cost and the capital repayment using the effective interest rate method. Lease finance costs are expensed when incurred. The accounting policies relating to derecognition of financial instruments are applied to lease payables. The lease asset is depreciated over the shorter of the asset's useful life or the lease term.

EMTHANJENI LOCAL MUNICIPALITY

ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

13. LEASES (Continued)

13.1 The Municipality as Lessee (Continued)

Operating leases (Continued)

The municipality recognises operating lease rentals as an expense in the statement of financial performance on a straight-line basis over the term of the relevant lease. The difference between the amounts is recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

13.2 The Municipality as Lessor

Amounts due from lessees under finance leases or instalment sale agreements are recorded as receivables at the amount of the Municipality's net investment in the leases. Finance lease or instalment sale income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Municipality's net investment outstanding in respect of the leases or instalment sale agreements.

Operating lease rental income is recognised on a straight-line basis over the term of the relevant lease. The difference between recognised income and receipts is recognised as an operating lease asset or liability.

13.3 Determining whether an arrangement contains a lease

At inception of an arrangement, the Municipality determines whether such an arrangement is or contains a lease. A specific asset is the subject of a lease if fulfilment of the arrangement is dependent on the use of that specified asset. An arrangement conveys the right to use the asset if the arrangement conveys to the Municipality the right to control the use of the underlying asset. At inception or upon reassessment of the arrangement, the Municipality separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Municipality concludes for a finance lease that it is impracticable to separate the payments reliably, an asset and a liability are recognised at an amount equal to the fair value of the underlying asset. Subsequently the liability is reduced as payments are made and an imputed finance charge on the liability is recognised using the Municipality's incremental borrowing rate.

14. BORROWING COSTS

The municipality capitalises borrowing costs incurred that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset only when the commencement date for capitalisation is on or after 1 July 2008, while all other borrowing costs incurred (including borrowing cost incurred on qualifying assets where the commencement date for capitalisation is prior to 1 July 2008) are recognised as an expense in the Statement of Financial Performance for the financial year ending 30 June 2011 in accordance with the requirements of GRAP 5 and ASB Directive 4. To the extent that an entity borrows funds generally and uses them for the purpose of obtaining a qualifying asset, the entity shall determine the amount of borrowing costs eligible for capitalisation by applying a capitalisation rate to the expenditure on that asset. The capitalisation rate shall be the weighted average of the borrowing costs applicable to the borrowings of the entity that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing costs that an entity capitalises during a period shall not exceed the amount of borrowing costs it incurred during that period.

The municipality ceases to capitalise borrowing costs when substantially all the activities necessary to prepare the qualifying assets for its intended use has been completed. Where the construction of the qualifying asset is completed in parts and each part is capable of being used while construction continues on other parts, the entity shall cease capitalising borrowing costs when it completes substantially all the activities necessary to prepare that part.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

EMTHANJENI LOCAL MUNICIPALITY

ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

15. GRANTS-IN-AID

The municipality transfers money to individuals, organisations and other sectors of government from time to time. When making these transfers, the municipality does not:

- receive any goods or services directly in return, as would be expected in a purchase or sale transaction;
- expect to be repaid in future; or
- expect a financial return, as would be expected from an investment.

These transfers are recognised in the Statement of Financial Performance as expenses in the period that the events giving rise to the transfer occurred.

16. VALUE ADDED TAX

The Municipality is registered with SARS for VAT on the payments basis, in accordance with Sec15(2)(a) of the Value-Added Tax Act No 89 of 1991.

17. UNAUTHORISED EXPENDITURE

Unauthorised expenditure is expenditure that has not been budgeted, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No 56 of 2003). All expenditure relating to unauthorised expenditure is recognised as an expense in the Statement of Financial Performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance. If the expenditure is not condoned by the Council it is treated as an asset until it is recovered or written off as irrecoverable.

18. IRREGULAR EXPENDITURE

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No 56 of 2003), the Municipal Systems Act (Act No 32 of 2000), the Public Office Bearers Act (Act No 20 of 1998) or is in contravention of the Municipality's or Municipal Entities' supply chain management policies. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as an expense in the Statement of Financial Performance in the period it occurred and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance. If the expenditure is not condoned by the Council it is treated as an asset until it is recovered or written off as irrecoverable.

19. FRUITLESS AND WASTEFUL EXPENDITURE

Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised. All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance. If the expenditure is not condoned by the Council it is treated as an asset until it is recovered or written off as irrecoverable.

20. CHANGES IN ACCOUNTING POLICIES, ESTIMATES AND ERRORS

Changes in accounting policies that are effected by management have been applied retrospectively in accordance with GRAP 3 requirements, except to the extent that it is impracticable to determine the period-specific effects or the cumulative effect of the change in policy. In such cases the municipality shall restate the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practicable.

Changes in accounting estimates are applied prospectively in accordance with GRAP 3 requirements. Details of changes in estimates are disclosed in the Note 46 to the Annual Financial Statements.

Correction of errors is applied retrospectively in the period in which the error has occurred in accordance with GRAP 3 requirements, except to the extent that it is impracticable to determine the period-specific effects or the cumulative effect of the error. In such cases the municipality shall restate the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practicable. Refer to Note 45 to the Annual Financial Statements for details of corrections of errors recorded during the period under review.

EMTHANJENI LOCAL MUNICIPALITY

ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

21. RELATED PARTIES

Individuals as well as their close family members, and/or entities are related parties if one party has the ability, directly or indirectly, to control or jointly control the other party or exercise significant influence over the other party in making financial and/or operating decisions. Key management personnel is defined as the Municipal Manager, Chief Financial Officer and all other managers reporting directly to the Municipal Manager or as designated by the Municipal Manager.

The Municipality furthermore considers related parties within the same sphere of government and will disclose these parties as such only if transactions occurred which were not at arm's length.

22. EVENTS AFTER THE REPORTING DATE

Events after the reporting date that are classified as adjusting events have been accounted for in the Annual Financial Statements. The events after the reporting date that are classified as non-adjusting events after the reporting date have been disclosed in the notes to the Annual Financial Statements.

23. FOREIGN CURRENCIES

Transactions in foreign currencies are initially recorded at the prevailing exchange rate on the dates of the transactions. Monetary assets and liabilities denominated in such foreign currencies are retranslated at the rates prevailing at the reporting date. Exchange differences are included in the Statement of Financial Performance.

24. COMPARATIVE INFORMATION

24. 1 Current year comparatives:

Budgeted amounts have, in accordance with GRAP 1, been provided to these financial statements and form part of the Annual Financial Statements. The budget has been prepared on a comparable basis. Refer to Note 63.

24. 2 Prior year comparatives

When the presentation or classification of items in the Annual Financial Statements is amended, prior period comparative amounts are reclassified. The nature and reasons for the reclassification are disclosed.

24. 3 Budget Information

The annual budget figures have been prepared in accordance with the GRAP standard and are consistent with the accounting policies adopted by the Council for the preparation of these financial statements. The amounts are scheduled as a separate additional financial statement, called the Statement of Comparison of Budget and Actual amounts. Explanatory comment is provided in the notes to the annual financial statements giving firstly reasons for overall growth or decline in the budget and secondly motivations for over- or underspending on line items. The annual budget figures included in the financial statements are for the Municipality and do not include budget information relating to subsidiaries or associates. These figures are those approved by the Council at the beginning and during the year following a period of consultation with the public as part of the Integrated development plan. Refer to Note 63.

25. CONTINGENT ASSETS AND CONTINGENT LIABILITIES

Contingent liabilities represent a possible obligation that arises from past events and whose existence will be confirmed only by an occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.

A contingent liability can also arise as a result of a present obligation that arises from past events but which is not recognised as a liability either because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability.

Contingent assets represent possible assets that arise from past events and whose existence will be confirmed only by an occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in the notes to the annual financial statements.

EMTHANJENI LOCAL MUNICIPALITY

ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

26. TREATMENT OF ADMINISTRATION AND OTHER OVERHEAD EXPENSES

The costs of internal support services are transferred to the various services and departments to whom resources are made available.

27 CAPITAL COMMITMENTS

Items are classified as commitments where the Municipality commits itself to future transactions that will normally result in the outflow of resources.

Capital commitments are not recognised in the statement of financial position as a liability but are included in the disclosure notes in the following cases:

- Approved and contracted commitments, where the expenditure has been approved and the contract has been awarded at the reporting date, where disclosure is required by a specific standard of GRAP.
- Approved but not yet contracted commitments, where the expenditure has been approved and the contract has yet to be awarded or is awaiting finalisation at the reporting date.
- Items are classified as commitments where the municipality commits itself to future transactions that will normally result in the outflow of resources.
- Contracts that are entered into before the reporting date, but goods and services have not yet been received are disclosed in the disclosure notes to the financial statements.
- Other commitments for contracts are either non-cancellable or only cancellable at significant cost contracts, and should relate to something other than the business of the municipality.

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

2012	2011
R	R

1. GENERAL INFORMATION

Emthanjeni Local Municipality (the municipality) is a local government institution in De Aar, Britstown and Hanover, Northern Cape Province, and is one of eight local municipalities under the jurisdiction of the Pixley-ka-Seme District Municipality. The addresses of its registered office and principal place of business are disclosed under "General Information" included in the Annual Financial Statements and in the introduction of the Annual Report. The principal activities of the municipality are disclosed in the Annual Report and are prescribed by the Municipal Finance Management Act (MFMA).

2. INVENTORY

Consumable Stores - at cost	352,077	260,624
Property Stock - at cost	45,713,922	45,713,922
Water - at cost	12,744	11,964
Total Inventory	46,078,743	45,986,510

Consumables are held for own use with the result that no write downs of Inventory to Net Realisable Value were required.

The cost of water production for the year amounted to R0.61 per kilolitre (2011: R0.56 per kilolitre).

Inventory to the value of R60 870 (2011: R605 257) was written off during the year. The write-off is the result of stock differences identified and the consumables being carried as a no-charge item. The cost of Inventories recognised as an expense during the period was R935 733 (2011: R1 275 211).

No Inventories have been pledged as collateral for Liabilities of the municipality.

3. TRADE AND OTHER RECEIVABLES FROM EXCHANGE TRANSACTIONS

	Gross Balances R	Provision for Impairment R	Net Balances R
As at 30 June 2012			
Service Debtors:			
Electricity	64,648,039	(26,540,892)	38,107,147
Refuse	15,593,583	(4,314,978)	11,278,605
Sewerage	7,213,350	(2,912,425)	4,300,924
Water	14,651,557	(5,745,761)	8,905,796
Other Debtors	27,189,549	(13,567,728)	13,621,820
Other Debtors	1,768,791	(731,383)	1,037,408
	1,768,791	(731,383)	1,037,408
Total Trade and Other Receivables from Exchange Transactions	66,416,830	(27,272,275)	39,144,555
As at 30 June 2011			
Service Debtors:			
Electricity	49,952,231	(10,040,725)	39,911,507
Refuse	13,110,276	(1,235,582)	11,874,694
Sewerage	5,363,545	(976,802)	4,386,743
Water	11,414,171	(1,825,133)	9,589,038
Other Debtors	20,064,239	(6,003,207)	14,061,032
Other Debtors	1,221,061	(301,309)	919,752
	1,221,061	(301,309)	919,752
Total Trade and Other Receivables from Exchange Transactions	51,173,292	(10,342,033)	40,831,259

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

3. TRADE AND OTHER RECEIVABLES FROM EXCHANGE TRANSACTIONS (Continued)

Trade and Other Receivables from Exchange Transactions are billed monthly, latest end of month. No interest is charged on Trade Receivables until the end of the following month. Thereafter interest is charged at a rate determined by council on the outstanding balance.

The municipality receives applications which it processes. Deposits are required to be paid for all electricity and water accounts opened. There are no consumers who represent more than 5% of the total balance of Trade Receivables.

At 30 June 2012, the Municipality is owed R1 598 784 (2011: R2 179 356) by National and Provincial Government.

The municipality did not pledge any of its Trade and Other Receivables as security for borrowing purposes.

The management of the municipality is of the opinion that the carrying value of Trade and Other Receivables approximate their fair values.

The fair value of Trade and Other Receivables was determined after considering the standard terms and conditions of agreements entered into between the municipality and Trade Receivables as well as the current payment ratio's of the municipality's Trade Receivables.

3.1 Ageing of Trade and Other Receivables from Exchange Transactions

As at 30 June 2012

Current	Past Due			Total
0 - 30 Days	31 - 60 Days	61 - 90 Days	+ 90 Days	

Electricity:

Gross Balances	3,941,229	944,747	696,396	10,011,211	15,593,583
Less: Provision for Impairment	(295,365)	(216,568)	(160,923)	(3,642,122)	(4,314,978)
Net Balances	3,645,864	728,179	535,473	6,369,089	11,278,605

Refuse:

Gross Balances	295,669	241,304	215,002	6,461,374	7,213,350
Less: Provision for Impairment	47,254	(49,420)	(50,193)	(2,860,066)	(2,912,425)
Net Balances	342,923	191,884	164,809	3,601,308	4,300,924

Sewerage:

Gross Balances	550,951	414,772	370,399	13,315,434	14,651,556
Less: Provision for Impairment	63,868	(82,939)	(83,440)	(5,643,249)	(5,745,761)
Net Balances	614,819	331,833	286,959	7,672,185	8,905,796

Water:

Gross Balances	1,683,007	787,926	702,827	24,015,788	27,189,549
Less: Provision for Impairment	(245,488)	(314,935)	(324,807)	(12,682,499)	(13,567,728)
Net Balances	1,437,520	472,991	378,021	11,332,289	13,621,820

Other Debtors:

Other Debtors:				
Gross Balances	87,187	52,519	125,197	1,503,886
Less: Provision for Impairment	(19,961)	(19,800)	(19,939)	(671,684)
Net Balances	67,226	32,719	105,258	832,202
				1,768,790 (731,383)

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

2012
R

2011
R

3. TRADE AND OTHER RECEIVABLES FROM EXCHANGE TRANSACTIONS (Continued)

As at 30 June 2012 Trade and Other Receivables of R32 720 426 were past due but not impaired. The age analysis of these Trade Receivables are as follows:

	Past Due			Total
	31 - 60 Days	61 - 90 Days	+ 90 Days	

All Trade Receivables:

Gross Balances	6,558,044	2,441,269	2,109,822	55,307,693	59,858,783
Less: Provision for Impairment	(449,691)	(683,662)	(639,302)	(25,499,619)	(26,822,583)
Net Balances	7,007,735	1,757,606	1,470,520	29,808,074	33,036,200

As at 30 June 2011

	Past Due			Total	
	0 - 30 days	31 - 60 Days	61 - 90 Days	+ 90 Days	

Electricity:

Gross Balances	3,552,095	970,228	667,216	7,920,737	13,110,276
Less: Provision for Impairment	(65,368)	(63,154)	(60,106)	(1,046,954)	(1,235,582)
Net Balances	3,486,727	907,074	607,110	6,873,783	11,874,694

Refuse:

Gross Balances	479,616	340,633	310,963	4,232,332	5,363,545
Less: Provision for Impairment	(98,485)	(74,312)	(53,076)	(750,928)	(976,802)
Net Balances	381,131	266,321	257,887	3,481,404	4,386,743

Sewerage:

Gross Balances	849,479	588,390	540,035	9,436,267	11,414,171
Less: Provision for Impairment	(117,575)	(114,007)	(107,849)	(1,485,701)	(1,825,133)
Net Balances	731,904	474,383	432,186	7,950,565	9,589,038

Water:

Gross Balances	1,578,177	791,658	682,549	17,011,856	20,064,239
Less: Provision for Impairment	(202,924)	(234,193)	(203,277)	(5,362,813)	(6,003,207)
Net Balances	1,375,252	557,465	479,272	11,649,043	14,061,032

Other Debtors:

Gross Balances	60,902	54,248	21,716	1,084,195	1,221,061
Less: Provision for Impairment	(7,262)	(13,144)	(6,176)	(274,727)	(301,309)
Net Balances	53,639	41,104	15,541	809,468	919,752

As at 30 June 2011 Trade and Other Receivables of R2 881 918 were past due but not impaired. The age analysis of these Trade and Other Receivables are as follows:

	Past Due			Total
	31 - 60 Days	61 - 90 Days	+ 90 Days	

All Trade Receivables:

Gross Balances	6,520,269	2,745,157	2,222,480	39,685,386	44,653,023
Less: Provision for Impairment	(491,615)	(498,811)	(430,484)	(8,921,123)	(9,850,418)
Net Balances	7,011,884	2,246,346	1,791,996	30,764,263	34,802,605

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

2012
R

2011
R

3. TRADE AND OTHER RECEIVABLES FROM EXCHANGE TRANSACTIONS (Continued)

3.2 Summary of Trade Receivables from Exchange Transactions by Customer Classification

	Household	Industrial/ Commercial	National and Provincial Government	Other
	R	R	R	R
As at 30 June 2012				
<i>Current:</i>				
0 - 30 days	4,810,184	1,468,171	279,688	-
<i>Past Due:</i>				
31 - 60 Days	1,834,620	436,464	170,185	-
61 - 90 Days	1,660,779	362,456	86,587	-
+ 90 Days	50,556,581	3,684,893	1,062,324	3,895
Sub-total	58,862,164	5,951,983	1,598,784	3,895
Less: Provision for Impairment	(25,690,072)	(1,582,202)	-	-
Total Trade Receivables by Customer Classification	33,172,092	4,369,781	1,598,784	3,895

	Household	Industrial/ Commercial	National and Provincial Government	Other
	R	R	R	R
As at 30 June 2011				
<i>Current:</i>				
0 - 30 days	4,493,730	1,514,894	473,384	36,022
<i>Past Due:</i>				
31 - 60 Days	1,984,267	534,664	206,258	19,968
61 - 90 Days	1,696,974	372,590	135,183	17,733
+ 90 Days	34,174,838	3,814,540	1,364,532	333,716
Sub-total	42,349,809	6,236,688	2,179,356	407,439
Less: Provision for Impairment	(10,314,521)	(27,512)	-	-
Total Trade Receivables by Customer Classification	32,035,288	6,209,176	2,179,356	407,439

3.3 Reconciliation of the Provision for Impairment

Balance at beginning of year		(10,342,033)	(25,760,219)
Impairment Losses recognised		(16,930,242)	
Impairment Losses reversed		-	15,418,186
Amounts written off as uncollectable		-	-
Amounts recovered		-	-
Balance at end of year		(27,272,275)	(10,342,033)

In determining the recoverability of a Trade or Other Receivable, the municipality considers any change in the credit quality of the Trade or Other Receivable from the date credit was initially granted up to the reporting date. Furthermore, the municipality has also placed a strong emphasis on verifying the indigent status of consumers. The concentration of credit risk is limited due to the customer base being spread over a large number of consumers and is not concentrated in any particular sector or geographical area. Accordingly, management believe that there is no further credit provision required in excess of the Provision for Impairment.

The impairment is the result of the municipality's evaluation of the outstanding debt that may possibly not be recovered. The decrease (reversal) recognised in the current year is due to more detail and reliable information being available in respect to the risk pertaining the individually debtors, in comparison to that of the previous year.

Provision for impairment of Trade and Other Receivables has been made for all consumer balances outstanding based on the payment ratio over 12 months per service type.

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

2012	2011
R	R

3. TRADE AND OTHER RECEIVABLES FROM EXCHANGE TRANSACTIONS (Continued)

Included in the municipality's Trade and Other Receivables balance are debtors with a carrying amount of R32 720 426 (2011: R2 881 918) which are past due at the reporting date for which the municipality has not provided as there has not been a significant change in credit quality and the amounts are still considered recoverable. The municipality holds collateral over these balances in the form of Consumer Deposits (see Note 14), which are not covering the total outstanding debt. The average age of these receivables is 318 days (2011: 282 days).

No provision has been made in respect of government debt as these amounts are considered to be fully recoverable. The municipality holds collateral over these balances in the form of Consumer Deposits / Guarantees, which are not covering the total outstanding debt and vacant property respectively.

3.4 Ageing of impaired Trade and Other Receivables from Exchange Transactions

Current:

0 - 30 Days	(449,691)	(491,615)
-------------	-----------	-----------

Past Due:

31 - 60 Days	(683,662)	(498,811)
--------------	-----------	-----------

61 - 90 Days	(639,302)	(430,484)
--------------	-----------	-----------

+ 90 Days	(25,499,619)	(8,921,123)
-----------	--------------	-------------

Total

(27,272,274)	(10,342,033)
---------------------	---------------------

3.5 Derecognition of Financial Assets

No Financial Assets have been transferred to other parties during the year.

4. TRADE AND OTHER RECEIVABLES FROM NON-EXCHANGE TRANSACTIONS

	Gross Balances R	Provision for Impairment R	Net Balances R
As at 30 June 2012			
Assessment Rates Debtors	8,689,198	(2,370,718)	6,318,480
Sundry Deposits	109,610	-	109,610
Sundry Debtors	1,360,673	-	1,360,673
Total Trade and Other Receivables from Non-exchange Transactions	10,159,481	(2,370,718)	7,788,763

	Gross Balances R	Provision for Impairment R	Net Balances R
As at 30 June 2011			
Assessment Rates Debtors	6,141,520	(668,180)	5,473,340
Sundry Deposits	89,000	-	89,000
Sundry Debtors	1,630,105	-	1,630,105
Total Trade and Other Receivables from Non-exchange Transactions	7,860,625	(668,180)	7,192,445

Sundry Deposits are in respect of cash deposits amounting to R59 610 (2011: R39 000) made to fuel station for the supply of fuel and R50 000 (2011: R50 000) made to the S.A. Post Office for postal services.

Sundry Debtors are in respect of debits outstanding at year-end on normal business transactions entered into by the municipality.

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

2012	2011
R	R

4. TRADE AND OTHER RECEIVABLES FROM NON-EXCHANGE TRANSACTIONS (Continued)

The average credit period for Trade and Other Receivables is 30 days. No interest is charged for the first 30 days from the date of the invoice. Thereafter interest is charged at the prime rate, charged by the municipality's banker, plus one percent per annum on the outstanding balance. The municipality strictly enforces its approved credit control policy to ensure the recovery of Trade and Other Receivables.

The municipality does not hold deposits or other security for its Trade and Other Receivables.

None of the Trade and Other Receivables have been pledged as security for the municipality's financial liabilities.

The management of the municipality is of the opinion that the carrying value of Trade and Other Receivables approximate their fair values.

4.1 Ageing of Trade and Other Receivables from Non-exchange Transactions

As at 30 June 2012

	Current	Past Due			Total
	0 - 30 days	31 - 60 Days	61 - 90 Days	+ 90 Days	

Assessment Rates:

Gross Balances	628,456	193,265	162,003	7,705,473	8,689,198
Less: Provision for Impairment	(74,855)	(54,007)	(49,907)	(2,191,949)	(2,370,718)
Net Balances	553,601	139,258	112,097	5,513,524	6,318,480

Sundry Deposits:

Gross Balances	-	-	-	109,610	109,610
Less: Provision for Impairment	-	-	-	-	-
Net Balances	-	-	-	109,610	109,610

Sundry Debtors:

Gross Balances	1,360,673	-	-	-	1,360,673
Less: Provision for Impairment	-	-	-	-	-
Net Balances	1,360,673	-	-	-	1,360,673

As at 30 June 2012 Trade and Other Receivables of R5 874 425 were past due but not impaired. The age analysis of these Other Trade Receivables are as follows:

	Past Due			Total
	31 - 60 Days	61 - 90 Days	+ 90 Days	

All Other Trade Receivables:

Gross Balances	#REF!	193,265	162,003	7,815,083	8,170,352
Less: Provision for Impairment	#REF!	(54,007)	(49,907)	(2,191,949)	(2,295,863)
Net Balances	#REF!	139,258	112,097	5,623,134	5,874,489

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

2012
R

2011
R

4. TRADE AND OTHER RECEIVABLES FROM NON-EXCHANGE TRANSACTIONS (Continued)

As at 30 June 2011

	Current	Past Due			Total
	0 - 30 days	31 - 60 Days	61 - 90 Days	+ 90 Days	

Assessment Rates:

Gross Balances	668,176	217,211	162,188	5,093,945	6,141,520
Less: Provision for Impairment	(186,013)	(162,166)	(129,639)	(190,363)	(668,180)
Net Balances	482,163	55,045	32,549	4,903,582	5,473,340

Sundry Deposits:

Gross Balances	-	-	-	89,000	89,000
Less: Provision for Impairment	-	-	-	-	-
Net Balances	-	-	-	89,000	89,000

Sundry Debtors:

Gross Balances	403,747	341,494	704,833	180,030	1,630,104
Less: Provision for Impairment	-	-	-	-	-
Net Balances	403,747	341,494	704,833	180,030	1,630,104

As at 30 June 2011 Trade and Other Receivables of R1 861 597 were past due but not impaired. The age analysis of these Trade Receivables are as follows:

	Past Due			Total
	31 - 60 Days	61 - 90 Days	+ 90 Days	

All Other Trade Receivables:

Gross Balances	#REF!	558,705	867,021	5,362,975	6,788,701
Less: Provision for Impairment	#REF!	(162,166)	(129,639)	(190,363)	(482,167)
Net Balances	#REF!	396,539	737,382	5,172,612	6,306,534

4.2 Summary of Assessment Rates Debtors by Customer Classification

	Household R	Industrial/ Commercial R	National and Provincial Government R	Other R
		R	R	
As at 30 June 2012				
<u>Current:</u>				
0 - 30 days	565,226	59,576	3,654	-
<u>Past Due:</u>				
31 - 60 Days	184,373	5,239	3,652	-
61 - 90 Days	153,118	5,233	3,652	-
+ 90 Days	7,110,987	388,078	206,409	-
Sub-total	8,013,703	458,126	217,368	-
Less: Provision for Impairment	(2,295,606)	(75,176)	-	-
Total Rates Debtors by Customer Classification	5,718,097	382,951	217,368	-

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

		2012 R	2011 R	
	Household	Industrial/ Commercial	National and Provincial Government	Other
	R	R	R	R
As at 30 June 2011				
<i>Current:</i>				
0 - 30 days	505,015	129,683	22,740	10,738
<i>Past Due:</i>				
31 - 60 Days	153,906	36,935	25,330	1,041
61 - 90 Days	119,734	20,092	21,451	912
+ 90 Days	3,358,343	499,568	358,486	877,547
Sub-total	<u>4,136,997</u>	<u>686,278</u>	<u>428,007</u>	<u>890,238</u>
Less: Provision for Impairment	(668,180)	-	-	-
Total Rates Debtors by Customer Classification	<u>3,468,817</u>	<u>686,278</u>	<u>428,007</u>	<u>890,238</u>

4.3 Reconciliation of Provision for Impairment

Balance at beginning of year	(668,180)	(3,548,565)
Impairment Losses recognised	(1,702,538)	-
Impairment Losses reversed	-	2,880,385
Amounts written off as uncollectable	-	-
Amounts recovered	-	-
Balance at end of year	<u>(2,370,718)</u>	<u>(668,180)</u>

The Provision for Impairment on Trade and Other Receivables exists predominantly due to the possibility that these debts will not be recovered. Loans and receivables were assessed individually and grouped together at the Statement of Financial Position as financial assets with similar credit risk characteristics and collectively assessed for impairment.

The impairment is the result of the municipality's evaluation of the outstanding debt that may possibly not be recovered. The decrease (reversal) recognised in the current year is due to more detail and reliable information being available in respect to the risk pertaining the individually debtors, in comparison to that of the previous year.

The Provision for Impairment was calculated after grouping all the financial assets of similar nature and risk ratings and assessing the recoverability.

In determining the recoverability of a Rates Assessment Debtor and Other Receivables from Non-exchange Transactions, the municipality considers any change in the credit quality of the Rates Assessment Debtor from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, the management believe that there is no further credit provision required in excess of the Provision for Impairment.

No Provision for Impairment has been made in respect of government debt as these amounts are considered to be fully recoverable. The municipality holds collateral over these balances in the form of Rates Assessment Deposits / Guarantees, which are not covering the total outstanding debt and vacant property respectively.

The following loans and receivables are included in the total amount of the Provision for Impairment:

Sundry Debtors	-	-
Rates Assessment Debtors	2,370,718	668,180
Total Provision for Impairment on Trade and Other Receivables	<u>2,370,718</u>	<u>668,180</u>

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

	2012 R	2011 R
5. BANK, CASH AND CASH EQUIVALENTS		
Bank, Cash and Cash Equivalents	14,379,346	9,160,618
Bank Overdraft	(5,154,118)	(4,020,092)
Total Bank, Cash and Cash Equivalents	<u>9,225,228</u>	<u>5,140,526</u>

For the purposes of the Cash Flow Statement, Bank, Cash and Cash Equivalents include Cash-on-Hand, Cash in Banks and Investments in Money Market Instruments, net of outstanding Bank Overdrafts.

5.1 Current Investment Deposits

Call Deposits	8,062,686	207,287
Notice Deposits	6,284,366	8,891,958
Total Current Investment Deposits	<u>14,347,052</u>	<u>9,099,245</u>

Call Deposits are investments with a maturity period of less than 3 months and earn interest rates varying from 4,90 % to 5,50 % (2010: 6,20% to 8,50%) per annum.

Notice Deposits are investments with a maturity period of less than 12 months and earn interest rates varying from 5,40 % to 6,53 % (2010: 6,35 % to 7,48 %)per annum.

Deposits of R11 954 426 (2011: R2 325 390) are ring-fenced and attributable to Unspent Conditional Grants.

Deposits attributable to Unspent Conditional Grants	11,954,426	2,325,390
Total Deposits attributable to Commitments of the Municipality	<u>11,954,426</u>	<u>2,325,390</u>

5.2 Bank Accounts

Cash in Bank	31,134	60,213
Overdraft	(5,154,118)	(4,020,092)
Total Bank Accounts	<u>(5,122,984)</u>	<u>(3,959,879)</u>

The Municipality has the following bank accounts:

Primary Bank Account

ABSA Bank Limited - De Aar Branch - Cheque Account Number 185 000 0081

Cash book balance at beginning of year	(4,020,092)	(1,728,280)
Cash book balance at end of year	<u>(5,154,118)</u>	<u>(4,020,092)</u>
Bank statement balance at beginning of year	176,498	4,442,406
Bank statement balance at end of year	<u>4,271,207</u>	<u>176,498</u>

Standard Bank of SA Limited - De Aar Branch - Cheque Account Number 2803 50007

Cash book balance at beginning of year	870	2,925
Cash book balance at end of year	<u>2,216</u>	<u>870</u>
Bank statement balance at beginning of year	1,061	2,925
Bank statement balance at end of year	<u>2,216</u>	<u>1,061</u>

ABSA Bank Limited - De Aar Branch - Cheque Account Number 4061 685 162

Cash book balance at beginning of year	59,343	27,154
Cash book balance at end of year	<u>28,918</u>	<u>59,343</u>
Bank statement balance at beginning of year	59,343	27,154
Bank statement balance at end of year	<u>28,918</u>	<u>59,343</u>

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

	2012 R	2011 R
5. BANK, CASH AND CASH EQUIVALENTS (Continued)		
<i>ABSA Bank Limited - De Aar Branch - Fixed Deposit Account Number 2 052 997 314</i>		
Cash book balance at beginning of year	7,784	7,436
Cash book balance at end of year	<u>7,784</u>	<u>7,784</u>
Bank statement balance at beginning of year	7,784	7,436
Bank statement balance at end of year	<u>7,784</u>	<u>7,784</u>
<i>ABSA Bank Limited - De Aar Branch - Fixed Deposit Account Number 2 062 198 817</i>		
Cash book balance at beginning of year	2,607,670	2,436,847
Cash book balance at end of year	<u>-</u>	<u>2,607,670</u>
Bank statement balance at beginning of year	2,607,670	2,436,847
Bank statement balance at end of year	<u>-</u>	<u>2,607,670</u>
<i>ABSA Bank Limited - De Aar Branch - Fixed Deposit Account Number 2 062 198 906</i>		
Cash book balance at beginning of year	6,070,801	5,673,116
Cash book balance at end of year	<u>6,070,801</u>	<u>6,070,801</u>
Bank statement balance at beginning of year	6,070,801	5,673,116
Bank statement balance at end of year	<u>6,070,801</u>	<u>6,070,801</u>
<i>ABSA Bank Limited - De Aar Branch - Fixed Deposit Account Number 2 062 199 059</i>		
Cash book balance at beginning of year	203,339	190,019
Cash book balance at end of year	<u>203,339</u>	<u>203,339</u>
Bank statement balance at beginning of year	203,339	190,019
Bank statement balance at end of year	<u>203,339</u>	<u>203,339</u>
<i>ABSA Bank Limited - De Aar Branch - Fixed Deposit Account Number 2 068 494 239</i>		
Cash book balance at beginning of year	2,364	2,274
Cash book balance at end of year	<u>2,442</u>	<u>2,364</u>
Bank statement balance at beginning of year	2,364	2,274
Bank statement balance at end of year	<u>2,442</u>	<u>2,364</u>
<i>ABSA Bank Limited - De Aar Branch - Call Account Number 9 118 567 212</i>		
Cash book balance at beginning of year	1,024	1,000
Cash book balance at end of year	<u>1,014</u>	<u>1,024</u>
Bank statement balance at beginning of year	1,024	1,000
Bank statement balance at end of year	<u>1,014</u>	<u>1,024</u>
<i>ABSA Bank Limited - De Aar Branch - Call Account Number 9 168 828 440</i>		
Cash book balance at beginning of year	9,875	1,590,501
Cash book balance at end of year	<u>10,237</u>	<u>9,875</u>
Bank statement balance at beginning of year	9,875	1,590,501
Bank statement balance at end of year	<u>10,237</u>	<u>9,875</u>
<i>ABSA Bank Limited - De Aar Branch - Call Account Number 9 187 848 328</i>		
Cash book balance at beginning of year	1,089	1,000
Cash book balance at end of year	<u>1,000</u>	<u>1,089</u>
Bank statement balance at beginning of year	1,089	1,000
Bank statement balance at end of year	<u>1,000</u>	<u>1,089</u>

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

	2012 R	2011 R
5. BANK, CASH AND CASH EQUIVALENTS (Continued)		
<i>ABSA Bank Limited - De Aar Branch - Call Account Number 9 205 814 279</i>		
Cash book balance at beginning of year	53,342	51,899
Cash book balance at end of year	<u>54,859</u>	<u>53,342</u>
Bank statement balance at beginning of year	53,342	51,899
Bank statement balance at end of year	<u>54,859</u>	<u>53,342</u>
<i>ABSA Bank Limited - De Aar Branch - Call Account Number 9 207 882 270</i>		
Cash book balance at beginning of year	1,021	2,793
Cash book balance at end of year	<u>1,002</u>	<u>1,021</u>
Bank statement balance at beginning of year	1,021	2,793
Bank statement balance at end of year	<u>1,002</u>	<u>1,021</u>
<i>ABSA Bank Limited - De Aar Branch - Call Account Number 9 223 682 147</i>		
Cash book balance at beginning of year	135,856	288,186
Cash book balance at end of year	<u>1,000</u>	<u>135,856</u>
Bank statement balance at beginning of year	135,856	288,186
Bank statement balance at end of year	<u>1,000</u>	<u>135,856</u>
<i>ABSA Bank Limited - De Aar Branch - Call Account Number 9 228 175 838</i>		
Cash book balance at beginning of year	2,772	722,539
Cash book balance at end of year	<u>1,007</u>	<u>2,772</u>
Bank statement balance at beginning of year	2,772	722,539
Bank statement balance at end of year	<u>1,007</u>	<u>2,772</u>
<i>ABSA Bank Limited - De Aar Branch - Call Account Number 9 233 114 081</i>		
Cash book balance at beginning of year	-	648,796
Cash book balance at end of year	<u>-</u>	<u>-</u>
Bank statement balance at beginning of year	-	648,796
Bank statement balance at end of year	<u>-</u>	<u>-</u>
<i>ABSA Bank Limited - De Aar Branch - Call Account Number 9 222 035 197</i>		
Cash book balance at beginning of year	-	1,000
Cash book balance at end of year	<u>-</u>	<u>-</u>
Bank statement balance at beginning of year	-	1,000
Bank statement balance at end of year	<u>-</u>	<u>-</u>
<i>ABSA Bank Limited - De Aar Branch - Call Account Number 9 205 813 663</i>		
Cash book balance at beginning of year	-	135,993
Cash book balance at end of year	<u>-</u>	<u>-</u>
Bank statement balance at beginning of year	-	135,993
Bank statement balance at end of year	<u>-</u>	<u>-</u>
<i>ABSA Bank Limited - De Aar Branch - Call Account Number 9 199 813 620</i>		
Cash book balance at beginning of year	-	1,000
Cash book balance at end of year	<u>-</u>	<u>-</u>
Bank statement balance at beginning of year	-	1,000
Bank statement balance at end of year	<u>-</u>	<u>-</u>

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

	2012 R	2011 R
5. BANK, CASH AND CASH EQUIVALENTS (Continued)		
<i>ABSA Bank Limited - De Aar Branch - Call Account Number 9 197 808 413</i>		
Cash book balance at beginning of year	-	2,024
Cash book balance at end of year	<u> </u>	<u> </u>
Bank statement balance at beginning of year	-	2,024
Bank statement balance at end of year	<u> </u>	<u> </u>
<i>Standard Bank of SA Limited - De Aar Branch - Call Account Number 28 891 0672 001</i>		
Cash book balance at beginning of year	2,308	-
Cash book balance at end of year	<u>2,673,620</u>	<u>2,308</u>
Bank statement balance at beginning of year	2,308	-
Bank statement balance at end of year	<u>2,673,620</u>	<u>2,308</u>
<i>First National Bank - De Aar Branch - Call Account Number 62338612105 / 808</i>		
Cash book balance at beginning of year	-	-
Cash book balance at end of year	<u>96,720</u>	<u> </u>
Bank statement balance at beginning of year	-	-
Bank statement balance at end of year	<u>96,720</u>	<u> </u>
<i>Nedbank Ltd - De Aar Branch - Call Account Number 03/7662022900/000001</i>		
Cash book balance at beginning of year	-	-
Cash book balance at end of year	<u>5,222,226</u>	<u> </u>
Bank statement balance at beginning of year	-	-
Bank statement balance at end of year	<u>5,222,226</u>	<u> </u>

Interest on overdrawn current accounts are charged at the banker's prime rate plus two percent per annum. Interest is earned at different rates per annum on favourable balances.

5.3 Cash and Cash Equivalents

Cash Floats and Advances	1,160	1,160
Total Cash on hand in Cash Floats, Advances and Equivalents	<u>1,160</u>	<u>1,160</u>

The municipality did not pledge any of its Cash and Cash Equivalents as collateral for its financial liabilities.

No restrictions have been imposed on the municipality in terms of the utilisation of its Cash and Cash Equivalents.

The management of the municipality is of the opinion that the carrying value of Current Investment Deposits, Bank Balances, Cash and Cash Equivalents recorded at amortised cost in the Annual Financial Statements approximate their fair values.

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

2012	2011
R	R

6. OPERATING LEASE ASSETS

Operating Leases are recognised on the straight-line basis as per the requirement of GRAP 13. In respect of Non-cancellable Operating Leases the following assets have been recognised:

Balance at beginning of year	243,733	256,286
Operating Lease Revenue recorded	(44,179)	(12,553)
Operating Lease Revenue effected	-	-
Total Operating Lease Assets	199,554	243,733
Less: Amounts due for settlement within 12 months (Current Portion)	(78,931)	(43,480)
Total Operating Lease Assets	120,623	200,253

6.1 Leasing Arrangements

The Municipality as Lessor:

Operating Leases relate to Property owned by the municipality with lease terms of between 5 to 11 years (2011: 5 to 11 years), with an option to extend. All operating lease contracts contain market review clauses in the event that the lessee exercises its option to renew. The lessee does not have an option to purchase the property at the expiry of the lease period.

6.2 Amounts receivable under Operating Leases

At the Reporting Date the following minimum lease payments were receivable under Non-cancellable Operating Leases for Property, Plant and Equipment, which are receivable as follows:

Up to 1 year	389,581	362,959
2 to 5 years	503,042	832,703
More than 5 years	143,236	208,344
Total Operating Lease Arrangements	1,035,859	1,404,005

The impact of charging the escalations in Operating Leases on a straight-line basis over the term of the lease has been an decrease in current year income of R44 179 (2011: R12 533).

No restrictions have been imposed by the municipality in terms of the operating lease agreements.

7. CURRENT PORTION OF LONG-TERM RECEIVABLES

Sale of Property	-	13,438
	-	13,438

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

8. PROPERTY, PLANT AND EQUIPMENT

30 June 2012

Reconciliation of Carrying Value

Description	Land and Buildings	Infra-structure	Computer Equipment	Furniture & Fittings	Machinery & Equipment	Transport Assets	Leased Assets	Total
	R	R	R	R	R	R	R	R
Carrying values at 01 July 2011	184,052,828	871,892,309	1,288,554	3,167,043	7,480,894	7,197,611	40,708	1,075,119,945
Cost	281,305,363	1,833,369,667	1,877,473	4,513,098	9,036,695	7,880,563	148,736	2,138,131,596
- <i>Completed Assets</i>	280,599,366	1,826,135,605	1,877,473	4,513,098	9,036,695	7,880,563	148,736	2,130,191,537
- <i>Under Construction</i>	705,997	7,234,062	-	-	-	-	-	7,940,059
Accumulated Impairment Losses	(1,765,894)	-	-	-	-	-	-	(1,765,894)
Accumulated Depreciation:	(95,486,642)	(961,477,358)	(588,920)	(1,346,055)	(1,555,801)	(682,953)	(108,029)	(1,061,245,757)
- <i>Cost/Revalued Amount</i>	(95,486,642)	(961,477,358)	(588,920)	(1,346,055)	(1,555,801)	(682,953)	(108,029)	(1,061,245,757)
Acquisitions	59,945	310,713	197,378	3,708,221	304,860	683,768	-	5,264,885
Capital under Construction - Additions:	-	13,252,107	-	-	-	-	-	13,252,107
- <i>Cost</i>	-	13,252,107	-	-	-	-	-	13,252,107
Additions	-	13,252,107	-	-	-	-	-	13,252,107
Impairment Losses	-	-	(868)	(14,371)	(1,870)	(68,088)	-	(85,196)
Depreciation:	(11,163,324)	(52,996,982)	(529,898)	(1,063,943)	(1,375,333)	(923,408)	(23,262)	(68,076,150)
- <i>Based on Cost/Revalued Amount</i>	(11,163,324)	(52,996,982)	(529,898)	(1,063,943)	(1,375,333)	(923,408)	(23,262)	(68,076,150)
Carrying value of Disposals:	-	-	(19,364)	(9,456)	(17,321)	-	-	(46,141)
- <i>Cost</i>	-	-	(146,488)	(28,945)	(49,861)	-	-	(225,295)
- <i>Accumulated Depreciation</i>	-	-	127,125	19,489	32,540	-	-	179,154
- <i>Based on Cost/Revalued Amount</i>	-	-	127,125	19,489	32,540	-	-	179,154
Carrying values at 30 June 2012	172,949,448	832,458,146	935,801	5,787,494	6,391,230	6,889,883	17,446	1,025,429,449
Cost	281,365,308	1,846,932,487	1,928,362	8,192,374	9,291,693	8,564,332	148,736	2,156,423,292
- <i>Completed Assets</i>	281,365,308	1,826,446,318	1,928,362	8,192,374	9,291,693	8,564,332	148,736	2,135,937,124
- <i>Under Construction</i>	-	20,486,168	-	-	-	-	-	20,486,168
Accumulated Impairment Losses	(1,765,894)	-	(868)	(14,371)	(1,870)	(68,088)	-	(1,851,090)
Accumulated Depreciation:	(106,649,966)	(1,014,474,340)	(991,693)	(2,390,509)	(2,898,593)	(1,606,360)	(131,290)	(1,129,142,753)
- <i>Cost/Revalued Amount</i>	(106,649,966)	(1,014,474,340)	(991,693)	(2,390,509)	(2,898,593)	(1,606,360)	(131,290)	(1,129,142,753)

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

8. PROPERTY, PLANT AND EQUIPMENT (Continued)

30 June 2011

Reconciliation of Carrying Value

Description	Land and Buildings	Infra-structure	Computer Equipment	Furniture & Fittings	Machinery & Equipment	Transport Assets	Leased Assets	Total
	R	R	R	R	R	R	R	R
Carrying values at 01 July 2010	195,012,677	915,977,849	1,668,163	3,918,683	3,545,196	2,912,441	65,591	1,123,100,599
Cost	279,435,047	1,824,712,503	1,809,770	4,465,025	3,998,904	3,246,521	148,736	2,117,816,507
- <i>Completed Assets</i>	279,435,047	1,824,712,503	1,809,770	4,465,025	3,998,904	3,246,521	148,736	2,117,816,507
Accumulated Depreciation:	(84,422,369)	(908,734,654)	(141,607)	(546,343)	(453,709)	(334,080)	(83,146)	(994,715,908)
- <i>Cost/Revalued Amount</i>	(84,422,369)	(908,734,654)	(141,607)	(546,343)	(453,709)	(334,080)	(83,146)	(994,715,908)
Acquisitions	1,164,319	1,423,102	88,521	51,144	5,046,612	4,904,357	-	12,678,056
Capital under Construction - Additions:	705,997	7,234,062	-	-	-	-	-	7,940,059
- <i>Cost</i>	705,997	7,234,062	-	-	-	-	-	7,940,059
Additions	705,997	7,234,062	-	-	-	-	-	7,940,059
Impairment Losses	(1,765,894)	-	-	-	-	-	-	(1,765,894)
Depreciation:	(11,064,272)	(52,742,704)	(466,465)	(802,476)	(1,109,981)	(478,623)	(24,883)	(66,689,406)
- <i>Based on Cost/Revalued Amount</i>	(11,064,272)	(52,742,704)	(466,465)	(802,476)	(1,109,981)	(478,623)	(24,883)	(66,689,406)
Carrying value of Disposals:	-	-	(1,665)	(307)	(933)	(140,564)	-	(143,469)
- <i>Cost</i>	-	-	(20,818)	(3,071)	(8,822)	(270,315)	-	(303,026)
- <i>Accumulated Depreciation</i>	-	-	19,153	2,764	7,889	129,751	-	159,557
- <i>Based on Cost/Revalued Amount</i>	-	-	19,153	2,764	7,889	129,751	-	159,557
Carrying values at 30 June 2011	184,052,828	871,892,309	1,288,554	3,167,043	7,480,894	7,197,611	40,708	1,075,119,945
Cost	281,305,363	1,833,369,667	1,877,473	4,513,098	9,036,695	7,880,563	148,736	2,138,131,596
- <i>Completed Assets</i>	280,599,366	1,826,135,605	1,877,473	4,513,098	9,036,695	7,880,563	148,736	2,130,191,537
- <i>Under Construction</i>	705,997	7,234,062	-	-	-	-	-	7,940,059
Accumulated Impairment Losses	(1,765,894)	-	-	-	-	-	-	(1,765,894)
Accumulated Depreciation:	(95,486,642)	(961,477,358)	(588,920)	(1,346,055)	(1,555,801)	(682,953)	(108,029)	(1,061,245,757)
- <i>Cost/Revalued Amount</i>	(95,486,642)	(961,477,358)	(588,920)	(1,346,055)	(1,555,801)	(682,953)	(108,029)	(1,061,245,757)

The leased Property, Plant and Equipment is secured as set out in Note 20.

Refer to Appendices "B, C and E" for more detail on Property, Plant and Equipment, including those in the course of construction.

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

2012	2011
R	R

8. PROPERTY, PLANT AND EQUIPMENT (Continued)

8.1 Gross Carrying Amount of Property, Plant and Equipment that is fully depreciated and still in use

There is no Property, Plant and Equipment that is fully depreciated at year-end and still in use by the municipality.

8.2 Assets pledged as security

The municipality's obligations under Finance Leases (see Note 20) are secured by the lessors' title to the leased assets. No other assets of the municipality have been pledged as security.

8.3 Impairment of Property, Plant and Equipment

The total amount of R85 196 disclosed for impairment losses on Property, Plant and Equipment does not include individually material amounts of impairment losses. However, cumulative impairment losses for the following significant account balances are included therein:

Land and Buildings	-	1,765,894
Other Assets: Computer Equipment	868	-
Other Assets: Furniture and Fittings	14,371	-
Other Assets: Motor Vehicles	68,087	-
Other Assets: Machinery and Equipment	1,870	-
Total Impairment of Property, Plant and Equipment	85,196	1,765,894

Impairment losses on Property, Plant and Equipment exist predominantly due to an impaired item of Property, Plant and Equipment that has been physically damaged, become redundant and idle.

The depreciation charge has been adjusted in future periods to allocate the asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

8.4 Change in Estimate - Useful Life of Property, Plant and Equipment reviewed

A change in the estimated useful life of various assets of the municipality has resulted in the following decreases in depreciation for the mentioned departments for the financial year 2011/2012:

Executive and Council	1,466	-
Finance and Administration	19,807	-
Community and Social Services	21,254	-
Health	659	-
Housing	72,741	-
Planning and Development	10,012	-
Roads and Transport	7,288	-
Electricity	7,105	-
Waste Management	56,682	-
Water	6,769	-
Total Decrease in Depreciation	203,783	-

The change in estimates will result in an increase of R203 783 in the depreciation expense in future periods.

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

2012	2011
R	R

8. PROPERTY, PLANT AND EQUIPMENT (Continued)

8.5 Land and Buildings carried at Fair Value

Land and Buildings were revalued to fair value by using the municipal valuation roll. The effective date of revaluation was 01 July 2009. The valuation was done by Uluntu Consultants, registered and independent valuers. The National Home Builders Registration Council indices, which indicate current building costs, were used to determine replacement values.

The following assumptions were used:

Discount Rate	7.80%	7.80%
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An independent valuation of the municipality's Land and Buildings was performed by Mr. D. Grobler, registered and independent valuers, to determine the fair value thereof. The valuation, which conforms to International Valuation Standards, was made on the basis of recent market transactions on arm's length terms. The effective date of the valuation is 1 July 2009.

The revaluation surplus was credited to the Revaluation Reserve in Net Assets. Refer to Note 24.

9. INTANGIBLE ASSETS

At Cost less Accumulated Amortisation and Accumulated Impairment Losses	<u>1,062,346</u>	<u>1,611,012</u>
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The movement in Intangible Assets is reconciled as follows:

	Computer Software	Total
Carrying values at 01 July 2011	1,611,012	1,611,012
Cost	1,795,143	1,795,143
Accumulated Amortisation	(184,131)	(184,131)
Acquisitions:	25,609	25,609
Cost	25,609	25,609
Amortisation:	(574,275)	(574,275)
Cost	(574,275)	(574,275)
Carrying values at 30 June 2012	1,062,346	1,062,346
Cost	1,820,752	1,820,752
Accumulated Amortisation	(758,406)	(758,406)
	Computer Software	Total
Carrying values at 01 July 2010	1,706,878	1,706,878
Cost	1,743,301	1,743,301
Accumulated Amortisation	(36,423)	(36,423)
Acquisitions:	51,842	51,842
Purchased	51,842	51,842
Amortisation:	(147,708)	(147,708)
Purchased	(147,708)	(147,708)
Carrying values at 30 June 2011	1,611,012	1,611,012
Cost	1,795,143	1,795,143
Accumulated Amortisation	(184,131)	(184,131)

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

2012	2011
R	R

9. INTANGIBLE ASSETS (Continued)

The amortisation expense has been included in the line item "Depreciation and Amortisation" in the Statement of Financial Performance (see Note 36).

All of the municipality's Intangible Assets are held under freehold interests and no Intangible Assets have been pledged as security for any liabilities of the municipality.

The useful lives of the Intangible Assets remain unchanged from the previous year and are as follows:

Computer Software	3 - 5 Years (2011: 3 - 5 Years)
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Amortisation is charged on a straight-line basis over the Intangible Assets' useful lives.

No restrictions apply to any of the Intangible Assets of the municipality.

Refer to Appendix "B" for more detail on Intangible Assets.

9.1 Significant Intangible Assets

The municipality has a Financial Accounting System, Abakus, which is material in relation to other intangibles assets recognised. The carrying amount of the software of R925 000 (2011: R1 425 000).

9.2 Impairment of Intangible Assets

No impairment losses have been recognised on Intangible Assets of the municipality at the reporting date.

10. INVESTMENT PROPERTY

At Fair Value	3,106,800
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The movement in Investment Property is reconciled as follows:

Carrying values at the beginning of the year	3,440,900	3,440,900
Fair Value	3,440,900	3,440,900
Acquisitions during the Year	-	-
Depreciation during the Year	-	-
Disposals during the Year:	(334,100)	-
At Cost	(334,100)	-
Carrying values at year end	3,106,800	3,440,900
Fair Value	3,106,800	3,440,900
Estimated Fair Value of Investment Property at 30 June	3,106,800	3,440,900

All of the municipality's Investment Property is held under freehold interests and no Investment Property had been pledged as security for any liabilities of the municipality. No contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements existed at year end.

There are no restrictions on the realisability of Investment Property or the remittance of revenue and proceeds of disposal.

There are no contractual obligations on Investment Property.

Revenue and Expenditure disclosed in the Statement of Financial Performance include the following:

Rental Revenue earned from Investment Property	157,910
Direct Operating Expenses - incurred to generate rental revenue	-
Direct Operating Expenses - incurred which did not generate rental revenue	-

Refer to Appendix "B" for more detail on Investment Property.

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

2012	2011
R	R

10. INVESTMENT PROPERTY (Continued)

10.1 Investment Property carried at Fair Value

The circumstances surrounding the investment properties is considered annually to establish whether conditions and circumstances changed that may effect the fair value significantly. If such indications are identified, the investment properties are valued to establish the fair value thereof, by an independent, professionally qualified, valuer. The valuation, which conforms to International Valuation Standards, is arrived at by reference to market evidence of transaction prices for similar properties.

The following assumptions were used:

Discount Rate	7.80%	6.74%
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11. HERITAGE ASSETS

The municipality held the following Heritage Assets:

- Mayoral Chains
- Willis Jeep including Trailer (Fire Truck)
- Schreiner House
- St. Paul's Church
- Garden of Remembrance
- Grave of Swart Jan Vermeulen
- Steam Tractor
- Monument

A list of all the Heritage Assets and the applicable location is available at the offices of the Municipality.

12. NON-CURRENT INVESTMENTS

Listed

Listed Shares	<u>10,940</u>	<u>7,678</u>
Short-term Listed Investments	—	—
Total Investments	<u>10,940</u>	<u>7,678</u>
All Investments	10,940	7,678
Less: Short-term Portion transferred to Current Investments	—	—
Total Non-current Investments	<u>10,940</u>	<u>7,678</u>

Market valuation of Listed Investments

Listed Shares	<u>10,940</u>	<u>7,678</u>
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Listed Shares are 2,000 shares held in OVK with no specific maturity dates or interest rates. The value was determined by using the active market value as at yearend.

The Municipal Structures Act, Act 177 of 1998, requires local authorities to invest funds which are not immediately required with prescribed institutions and the period should be such that it will not be necessary to borrow funds against the investment at a penalty rate of interest to meet commitments.

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

2012
R

2011
R

13. LONG-TERM RECEIVABLES

	Gross Balances R	Provision for Impairment R	Net Balances R
As at 30 June 2012			
Other Loans	1,164	-	1,164
	<u>1,164</u>	<u>-</u>	<u>1,164</u>
Less: Current Portion transferred to Current Receivables:-			-
Other Loans			-
Total Long-term Receivables			<u>1,164</u>
 As at 30 June 2011			
Sale of Property	42,402	-	42,402
Other Loans	1,162	-	1,162
	<u>43,564</u>	<u>-</u>	<u>43,564</u>
Less: Current Portion transferred to Current Receivables:-			(13,438)
Sale of Property			(13,438)
Total Long-term Receivables			<u>30,126</u>

The municipality does not hold deposits or any other security for its Long-term Receivables.

No Long-term Receivables have been pledged as security for the municipality's financial liabilities.

Long-term Receivables are neither past due nor impaired as management have no concerns over the credit quality of these assets.

The management of the municipality is of the opinion that the carrying value of Long-term Receivables recorded at amortised cost in the Annual Financial Statements approximate their fair values.

The fair value of Long-term Receivables was determined after considering the standard terms and conditions of agreements entered into between the municipality and other parties as well as the current payment ratio's of the municipality's debtors.

13.1 Ageing of Long-term Receivables

Current:

0 - 30 days

Past Due:

31 - 60 Days

61 - 90 Days

91 - 120 Days

+ 120 Days

Total

1,164	30,126
<u>1,164</u>	<u>30,126</u>

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

	2012 R	2011 R
14. CONSUMER DEPOSITS		
Electricity and Water	1,781,959	1,710,596
Total Consumer Deposits	1,781,959	1,710,596
Guarantees held in lieu of Electricity and Water Deposits	-	-
Consumer Deposits are paid by consumers on application for new water and electricity connections. The deposits are repaid when the water and electricity connections are terminated. In cases where consumers default on their accounts, the municipality can utilise the deposit as payment for the outstanding account.		
No interest is paid on Consumer Deposits held.		
The management of the municipality is of the opinion that the carrying value of Consumer Deposits approximate their fair values.		
The fair value of Consumer Deposits was determined after considering the standard terms and conditions of agreements entered into between the municipality and its consumers.		
15. CURRENT PORTION OF RETIREMENT BENEFIT LIABILITIES		
Current Portion of Post-retirement Medical Aid Benefits Liability (See Note 21)	1,282,656	1,091,123
Current Portion of Retirement Benefit Liabilities	1,282,656	1,091,123
The movement in liability are reconciled as follows:		
Current Portion of Retirement Benefit Liabilities		Post-retirement
		R
30 June 2012		
Balance at beginning of year	1,091,123	
Transfer from non-current	-	
Contributions to liability	191,533	
Expenditure incurred	-	
Balance at end of year	1,282,656	
30 June 2011		
Balance at beginning of year	922,225	
Transfer from non-current	-	
Contributions to liability	168,898	
Expenditure incurred	-	
Balance at end of year	1,091,123	
16. CREDITORS FROM EXCHANGE TRANSACTIONS		
Trade Creditors	2,641,528	604,151
Payments received in Advance	1,257,370	797,218
Staff Bonuses	1,174,230	1,312,937
Staff Leave Accrued	4,525,533	4,172,548
Sundry Deposits	199,745	180,501
Other Creditors	2,205,156	1,146,951
Total Creditors from Exchange Transactions	12,003,563	8,214,306

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

2012	2011
R	R

16. CREDITORS FROM EXCHANGE TRANSACTIONS (Continued)

Staff Leave accrue to the staff of the municipality on an annual basis, subject to certain conditions. The balance is an estimate of the amount due at the reporting date.

The average credit period on purchases is 30 days from the receipt of the invoice, as determined by the MFMA, except when the liability is disputed. No interest is charged for the first 30 days from the date of receipt of the invoice. Thereafter interest is charged in accordance with the credit policies of the various individual creditors that the municipality deals with. The municipality has policies in place to ensure that all payables are paid within the credit timeframe.

The municipality did not default on any payment of its Creditors. No terms for payment have been re-negotiated by the municipality.

The management of the municipality is of the opinion that the carrying value of Creditors approximate their fair values.

The fair value of Creditors was determined after considering the standard terms and conditions of agreements entered into between the municipality and other parties.

17. CREDITORS FROM NON-EXCHANGE TRANSACTIONS

Payments received in Advance	772,728	728,078
Total Creditors	772,728	728,078

The average credit period on purchases is 30 days from the receipt of the invoice, as determined by the MFMA, except when the liability is disputed. No interest is charged for the first 30 days from the date of receipt of the invoice. Thereafter interest is charged in accordance with the credit policies of the various individual creditors that the municipality deals with. The municipality has policies in place to ensure that all payables are paid within the credit timeframe.

The municipality did not default on any payment of its Creditors. No terms for payment have been re-negotiated by the municipality.

The management of the municipality is of the opinion that the carrying value of Creditors approximate their fair values.

The fair value of Creditors was determined after considering the standard terms and conditions of agreements entered into between the municipality and other parties.

18. UNSPENT CONDITIONAL GRANTS AND RECEIPTS

18.1 Conditional Grants from Government		
National Government Grants	4,768,432	2,007,602
Provincial Government Grants	7,146,807	278,600
Other Spheres of Government	39,188	39,188
Total Conditional Grants and Receipts		
	11,954,426	2,325,389

The Unspent Conditional Grants and Receipts are invested in investment accounts until utilised.

See Note 29 for the reconciliation of Grants from Government. The Unspent Grants are cash backed by term deposits. The municipality complied with the conditions attached to all grants received to the extent of revenue recognised. No grants were withheld.

Refer to Appendix "F" for more detail on Conditional Grants.

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

2012	2011
R	R

19. VAT PAYABLE

VAT Payable is the Net Payable from all VAT Control Accounts, excluding VAT on Debtor Services and the VAT Suspense Account included in Creditors (Payables), and must agree to the VAT201 Return.

VAT Payable	2,189,259	4,036,539
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VAT is payable on the receipts basis. Only once payment is received from debtors, VAT is paid over to SARS.

No interest is payable to SARS if the VAT is paid over timeously, but interest for late payments is charged according to Value-Added-Tax Act. The municipality has financial risk policies in place to ensure that payments are affected before the due date.

20. LONG-TERM LIABILITIES

Annuitv Loans	10,743,580	12,766,499
Finance Lease Liabilities	23,604	51,120
 Sub-total	 10,767,184	 12,817,619
 Less: Current Portion transferred to Current Liabilities:-	 (2,256,675)	 (2,024,986)
Annuitv Loans	(2,233,071)	(1,997,470)
Finance Lease Liabilities	(23,604)	(27,516)
 Total Long-term Liabilities	 8,510,509	 10,792,632

20.1 Summary of Arrangements

Annuitv Loans are repaid over periods varying from 5 to 10 (2011: 5 to 10) years and at interest rates varying from 9.60% to 12.00% (2011: 9.60% to 12.00%) per annum. Annuitv Loans are not secured.

Finance Lease Liabilities relate to IT Equipment with a lease term of 5 (2011: 5) years. The effective interest rate on Finance Leases is between 10.00% and 11.00% (2011: 10.00% and 11.00%). Capitalised Lease Liabilities are secured over items of IT Equipment leased.

The management of the municipality is of the opinion that the carrying value of Long-term Liabilities recorded at amortised cost in the Annual Financial Statements approximate their fair values.

The fair value of Long-term Liabilities was determined after considering the standard terms and conditions of agreements entered into between the municipality and the relevant financing institutions.

Refer to Appendix "A" for more detail on Long-term Liabilities.

20.2 Obligations under Finance Lease Liabilities

The Municipality as Lessee:

Finance Leases relate to IT Equipment with lease terms not more than 5 years (2011: 5 years). The effective interest rate on Finance Leases is between 11.00% and 12.00% (2011: 11.00% and 12.00%).

The municipality does not have an option to purchase the leased Property, Plant and Equipment at the conclusion of the lease agreements. The municipality's obligations under Finance Leases are secured by the lessors' title to the leased assets.

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

2012	2011
R	R

20. LONG-TERM LIABILITIES (Continued)

The obligations under Finance Leases are as follows:

	Minimum Lease Payments		Present Value of Minimum Lease Payments	
	2012 R	2011 R	2012 R	2011 R
Amounts payable under finance leases:				
Within one year	23,759	33,497	23,604	27,516
In the second to fifth years, inclusive	-	58,620	-	23,604
	<u>23,759</u>	<u>92,118</u>	<u>23,604</u>	<u>51,120</u>
Less: Future Finance Obligations	(155)	(41,017)		
Present Value of Minimum Lease Obligations	<u>23,604</u>	<u>51,100</u>	<u>23,604</u>	<u>51,120</u>
Less: Amounts due for settlement within 12 months (Current Portion)			(23,604)	(27,516)
Finance Lease Obligations due for settlement after 12 months (Non-current Portion)			<u>-</u>	<u>23,604</u>

The municipality has finance lease agreements for the following significant classes of assets:

- IT Equipment

Included in these classes are the following significant leases:

(i) IT Equipment

- Instalments are payable monthly in advance		
- Average period outstanding	0 months	0 months
- Average effective interest rate	10.00%	10.00%
- Average monthly instalment	R 2,637.60	R 2,637.60

20.3 Breach of Loan Agreement

The municipality did not default on any payment of its Long-term Liabilities. No terms for payment have been re-negotiated by the municipality.

21. RETIREMENT BENEFIT LIABILITIES

21.1 Post-retirement Health Care Benefits Liability

Balance at beginning of Year		26,598,730	21,403,686
Contributions to Liability		1,091,123	922,225
Increase due to Discounting		2,263,243	1,920,641
Benefits Paid		(874,536)	(727,872)
Expenditure incurred		-	-
Reduction due to Re-measurement		-	-
Net Expense recognised in the Statement of Financial Performance		-	-
Actuarial (Gains) /Losses		(3,169,875)	3,080,050
Balance at end of Year		<u>25,908,685</u>	<u>26,598,730</u>
Transfer to Current Portion of Retirement Benefit Liabilities		(1,282,656)	(1,091,123)
Total Post-retirement Health Care Benefits Liability		<u>24,626,029</u>	<u>25,507,607</u>

The municipality provides certain post-retirement health care benefits by funding the medical aid contributions of qualifying retired members of the municipality. According to the rules of the Medical Aid Funds, with which the municipality is associated, a member (who is on the current Conditions of Service) is entitled to remain a continued member of such medical aid fund on retirement, in which case the municipality is liable for a certain portion of the medical aid membership fee. The municipality operates an unfunded defined benefit plan for these qualifying employees. No other post-retirement benefits are provided to these employees.

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

2012	2011
R	R

21. RETIREMENT BENEFIT LIABILITIES (Continued)

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 30 June 2012 by Arch Actuarial Consultants, Fellow of the Actuarial Society of South Africa. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

The members of the Post-employment Health Care Benefit Plan are made up as follows:

In-service Members (Employees)	48	50
In-service Non-members (Employees)	253	266
Continuation Members (Retirees, widowers and orphans)	28	33
Total Members	329	349

The liability in respect of past service has been estimated as follows:

In-service Members	15,073,968	14,771,915
Continuation Members	10,834,717	11,826,815
Total Liability	25,908,685	26,598,730

The municipality makes monthly contributions for health care arrangements to the following Medical Aid Schemes:

- Bonitas
- Hosmed
- Keyhealth
- LA Health
- Samwumed

The Current-service Cost for the year ending 30 June 2012 is estimated to be R1 091 123 whereas the cost for the ensuing year is estimated to be R1 282 656 (2011: R922 225 and R1 091 123 respectively).

The principal assumptions used for the purposes of the actuarial valuations were as follows:

Discount Rate	7.90%	8.65%
Health Care Cost Inflation Rate	6.97%	7.31%
Net Effective Discount Rate	0.87%	1.25%
Expected Rate of Salary Increase	5.98%	6.24%
Expected Retirement Age - Females	59	59
Expected Retirement Age - Males	63	63

Movements in the present value of the Defined Benefit Obligation were as follows:

Balance at the beginning of the year	26,598,730	21,403,686
Current service costs	1,091,123	194,353
Interest cost	2,263,243	1,920,641
Contributions from plan participants	-	-
Past-service costs	-	-
Benefits paid	(874,536)	-
Actuarial losses / (gains)	(3,169,875)	3,080,050
Losses / (gains) on curtailments	-	-
Liabilities extinguished on settlements	-	-
Present Value of Fund Obligation at the end of the Year	25,908,685	26,598,730
Actuarial losses / (gains) unrecognised	-	-
Total Recognised Benefit Liability	25,908,685	26,598,730

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

	2012 R	2011 R
21. RETIREMENT BENEFIT LIABILITIES (Continued)		
The amounts recognised in the Statement of Financial Position are as follows:		
Present value of fund obligations	25,908,685	26,598,730
Fair value of plan assets	-	-
	25,908,685	26,598,730
Present value of unfunded obligations	-	-
Unfunded Accrued Liability	25,908,685	26,598,730
Total Benefit Liability	<u>25,908,685</u>	<u>26,598,730</u>

The amounts recognised in the Statement of Financial Performance are as follows:

Current service cost	1,091,123	194,353
Interest cost	2,263,243	1,920,641
Benefits paid	(874,536)	
Actuarial losses / (gains)	(3,169,875)	3,080,050
Total Post-retirement Benefit included in Employee Related Costs (Note 33)		
	<u>(690,045)</u>	<u>5,195,044</u>

The history of the plan obligation is as follows:

	2012 R	2011 R	2010 R	2009 R
Present Value of Defined Benefit Obligation	25,908,685	26,598,730	21,403,686	15,950,527
Deficit	<u>25,908,685</u>	<u>26,598,730</u>	<u>21,403,686</u>	<u>15,950,527</u>

The effect of a 1% movement in the assumed rate of health care cost inflation is as follows:

Increase:

Effect on the aggregate of the current service cost and the interest cost	3,965,000	3,338,200
Effect on the defined benefit obligation	30,145,000	30,788,000

Decrease:

Effect on the aggregate of the current service cost and the interest cost	2,865,100	2,443,600
Effect on the defined benefit obligation	22,466,000	23,186,000

The municipality expects to make a contribution of R1 282 656 (2011: R1 091 123) to the Defined Benefit Plans during the next financial year.

Refer to Note 55 "Multi-employer Retirement Benefit Information" to the Annual Financial Statements for more information regarding the municipality's other retirement funds that are Provincially and Nationally administered.

22. NON-CURRENT PROVISIONS

Provision for Rehabilitation of Land-fill Sites	2,467,105	2,412,280
Total Non-current Provisions	<u>2,467,105</u>	<u>2,412,280</u>

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

2012	2011
R	R

22. NON-CURRENT PROVISIONS (Continued)

The movement in Non-current Provisions are reconciled as follows:

	Land-fill Sites	Sites
	R	R
30 June 2012		
Balance at beginning of year	2,412,280	
Contributions to provision	-	
Increase due to unwinding of discount	54,825	
Expenditure incurred	-	
	<hr/>	<hr/>
	2,467,105	
Transfer to current provisions	-	
	<hr/>	<hr/>
Balance at end of year	2,467,105	
	<hr/>	<hr/>
30 June 2011		
Balance at beginning of year	809,646	
Contributions to provision	1,602,634	
Increase due to discounting	-	
Expenditure incurred	-	
	<hr/>	<hr/>
	2,412,280	
Transfer to current provisions	-	
	<hr/>	<hr/>
Balance at end of year	2,412,280	
	<hr/>	<hr/>

22.1 Rehabilitation of Land-fill Sites

In terms of the licensing of the landfill refuse sites, the municipality will incur licensing and rehabilitation costs of R2 467 105 (2011: R 2 412 280) million to restore the site at the end of its useful life, estimated to be in 2042. Provision has been made for the net present value of this cost, using the average cost of borrowing interest rate.

Management has included the best estimated amount at year end, but the actual amount is uncertain. This estimation is based on the assumption that the restoration will have to occur in 2042.

23. LONG SERVICE AWARD

Long Service Awards Liability	2,606,021	2,307,237
	<hr/>	<hr/>
	2,606,021	2,307,237

The municipality operates an unfunded defined benefit plan for all its employees. Under the plan, a Long-service Award is payable after 10 years of continuous service, and every 5 years of continuous service thereafter, to employees. The provision is an estimate of the long-service based on historical staff turnover. No other long-service benefits are provided to employees.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 30 June 2012 by Arch Actuarial Consulting, Fellow of the Actuarial Society of South Africa. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

At year end, 295 (2011: 290) employees were eligible for Long-service Awards.

The Current-service Cost for the year ending 30 June 2012 is estimated to be R286 199, whereas the cost for the ensuing year is estimated to be R322 808 (2011: R263 649 and R286 199 respectively).

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

2012	2011
R	R

23. LONG SERVICE AWARD (Continued)

The principal assumptions used for the purposes of the actuarial valuations were as follows:

Discount Rate	6.32%	7.62%
Net Effective Discount Rate	0.32%	1.32%
Expected Rate of Salary Increase	5.98%	6.24%

Movements in the present value of the Long Service Award were as follows:

Balance at the beginning of the year	2,307,237	-
Recognition of obligation	-	2,067,619
Current service costs	286,199	263,649
Interest cost	164,298	159,922
Benefit vesting	(323,311)	(219,883)
Actuarial losses / (gains)	171,598	35,930

Present Value of Fund Obligation at the end of the Year **2,606,021** **2,307,237**

Actuarial losses / (gains) unrecognised

Total Recognised Benefit Liability **2,606,021** **2,307,237**

The amounts recognised in the Statement of Financial Position are as follows:

Present value of Long Service Award	2,606,021	2,307,237
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Total Benefit Liability **2,606,021** **2,307,237**

The amounts recognised in the Statement of Financial Performance are as follows:

Recognition of obligation	2,067,619
Current service cost	286,199
Interest cost	164,298
Benefit vesting	(323,311)
Actuarial losses / (gains)	171,598

Total Post-retirement Benefit included in Employee Related Costs (Note 33) **298,784** **2,307,237**

The history of the plan obligation is as follows:

	2012	2011	2010	2009
	R	R	R	R
Present Value of Long Service Award	2,606,021	2,307,237	-	-
Fair Value of Plan Assets	-	-	-	-
Deficit	2,606,021	2,307,237	-	-

The effect of a 1% movement in the assumed rate of long service cost inflation is as follows:

Increase:

Effect on the aggregate of the current service cost and the interest cost	476,590	447,037
Effect on the defined benefit obligation	2,768,000	2,444,000

Decrease:

Effect on the aggregate of the current service cost and the interest cost	426,962	402,318
Effect on the defined benefit obligation	2,458,000	2,183,000

The municipality expects to make a contribution of R322 808 (2011: R286 199) to the defined benefit plans during the next financial year.

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

	2012 R	2011 R
24. RESERVES		
Revaluation Reserve	186,444,178	198,634,515
Total Reserves	186,444,178	198,634,515

24.1 Revaluation Reserve

The Revaluation Reserve arises on the revaluation of Land and Buildings and qualifying Community Assets. Where revalued Land or Buildings are sold, the portion of the Revaluation Reserve that relates to that asset, and is effectively realised, is transferred directly to Accumulated Surplus.

Distributions from the Revaluation Reserve can be made where they are in accordance with the requirements of the municipality's accounting policy. The payment of cash distributions out of the reserve is restricted by the terms of the municipality's accounting policy. These restrictions do not apply to any amounts transferred to Accumulated Surplus. The Council do not currently intend to make any distribution from the Revaluation Reserve.

Reconciliation of the Revaluation Reserve:

Balance at beginning of year	198,634,515	210,814,974
Depreciation transferred to surplus	(12,190,337)	(12,180,460)
Balance at end of year	186,444,178	198,634,515

Refer to Statement of Changes in Net Assets for more detail and the movement on Reserves.

25. ACCUMULATED SURPLUS

The Accumulated Surplus consists of the following Internal Funds and Reserves:

Capital Replacement Reserve (CRR)	2,252,793	2,252,793
Accumulated Surplus due to the results of Operations	872,899,642	917,579,450
Total Accumulated Surplus	875,152,435	919,832,243

The Capital Replacement Reserve is a reserve to finance future capital expenditure and is fully invested in ring-fenced Financial Instrument Investments.

Refer to Statement of Changes in Net Assets for more detail and the movement on Accumulated Surplus.

26. PROPERTY RATES

	Property Valuations		Actual Levies	
	July 2012 R000's	July 2011 R000's		
Residential	797,198,115	775,738,665	10,788,187	10,053,485
Commercial	177,013,456	190,427,157	2,317,851	2,498,121
Agricultural	1,172,727,179	1,027,191,600	16,019,889	13,070,094
State	99,038,593	92,937,089	1,350,569	1,171,077
Municipal	26,589,449	465,990	208,712	4,723
Rebates			(16,348,013)	(14,604,651)
Total Property Rates	2,272,566,792	2,086,760,501	14,337,195	12,192,849

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

2012	2011
R	R

26. PROPERTY RATES (Continued)

Property Rates are levied on the value of land and improvements, which valuation is performed every four years. The last valuation came into effect on 1 July 2008.

Interim valuations are processed on an continuous basis to take into account changes in individual property values due to alterations and subdivisions.

A general rate is applied as follows to property valuations to determine property rates:

Agricultural Properties: 0.002274 c/R (2010/11: Increments)

All Other Properties: 0.013827 c/R (2010/11: 0.0130200 c/R)

Rates are levied monthly on property owners and are payable at the end of each month. Interest is levied at a rate determined by council on outstanding rates owed.

27. FINES

Traffic Violations System	6,232,266	8,278,328
Spot and Other Fines	229,251	293,991
Electricity	241,652	126,277
	<u>6,703,169</u>	<u>8,698,596</u>

The amounts disclosed above for revenue from Fines Income are in respect of fines issued for traffic violations and electricity. A separate bank account is kept for TVS fines, which reconciled monthly.

28. LICENCES AND PERMITS

Driver and leaner licences	623,016	647,505
Roadworthy and other special permits	478,776	430,939
Other	5,404	7,981
	<u>1,107,196</u>	<u>1,086,425</u>

Licences and permits represents revenue generated by providing licensing services to drivers, roadworthy inspections of motor vehicles and all other services regulated by the Traffic Department.

29. GOVERNMENT GRANTS AND SUBSIDIES

National Equitable Share	30,439,000	28,011,262
Operational Grants	<u>30,439,000</u>	<u>28,011,262</u>
Conditional Grants	13,448,412	13,466,335
National: FMG	1,450,000	1,200,000
National: MIG	9,094,009	8,421,471
National: MSIG	790,000	750,000
National: DWAF	141,410	217,710
National: Minerals and Energy	260,000	540,000
Provincial: Sport, Arts and Culture	690,000	440,000
Provincial: Sport, Arts and Culture	-	977,821
Provincial: EPWP	-	249,334
Provincial: Housing Accreditation	218,056	510,000
Provincial: Department of Health	192,930	-
National: DWAF (EU funding)	330,736	-
National: DWAF (ACIP)	281,272	-
Provincial: Hydroponic Houses	-	160,000
Total Government Grants and Subsidies	<u>43,887,412</u>	<u>41,477,597</u>

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

2012	2011
R	R

29. GOVERNMENT GRANTS AND SUBSIDIES (Continued)

Operational Grants:

29.1 National: Equitable Share	<u>30,439,000</u>	<u>28,011,262</u>
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In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members. All registered indigents receive a monthly subsidy up to R171 (2011: R156), based on the monthly billing, towards the consumer account. The subsidy is determined annually by council. All residential households receive 6 kl water and 50 kWh electricity (indigents only) free every month. No funds have been withheld.

Conditional Grants:

29.2 National: FMG Grant

Balance unspent at beginning of year	-	-
Current year receipts	1,450,000	1,200,000
Interest allocated	-	-
Conditions met - transferred to Revenue: Operating Expenses	(1,450,000)	(1,200,000)
Conditions met - transferred to Revenue: Capital Expenses	-	-
Conditions still to be met - transferred to Liabilities (see Note 18)	<u>-</u>	<u>-</u>

The Financial Management Grant is paid by National Treasury to municipalities to help implement the financial reforms required by the Municipal Finance Management Act (MFMA), 2003. The Financial Management Grant also pays for the cost of the Financial Management Internship Programme (e.g. salary costs of the Financial Management Interns). All conditions attached to the grant were met. No funds have been withheld.

29.3 National: MIG Funds

Balance unspent at beginning of year	2,007,602	2,038,078
Repayment of unused funds	(178,000)	-
Current year receipts	13,306,000	9,570,000
Interest allocated	-	-
Conditions met - transferred to Revenue: Own Income	(1,273,161)	(1,179,006)
Conditions met - transferred to Revenue: Capital Expenses	(9,094,009)	(8,421,471)
Conditions still to be met - transferred to Liabilities (see Note 18)	<u>4,768,431</u>	<u>2,007,602</u>

The Municipal Infrastructure Grant (MIG) was allocated for the construction of roads and sewerage infrastructure as part of the upgrading of previously disadvantaged areas (included in the Roads and Sewerage votes in Appendix "B"). No funds have been withheld.

At year end, not all conditions were met in respect to the upgrading of infrastructure as all funds received were not spent. This is due to the fact that the required infrastructure has not been completed and no certificates have been presented for payment. This resulted in the unspent portion being recognised at year end.

29.4 National: MSIG Funds

Balance unspent at beginning of year	-	-
Current year receipts	790,000	750,000
Interest allocated	-	-
Conditions met - transferred to Revenue: Operating Expenses	(790,000)	(750,000)
Conditions met - transferred to Revenue: Capital Expenses	-	-
Conditions still to be met - transferred to Liabilities (see Note 18)	<u>-</u>	<u>-</u>

The Municipal Systems Improvement Grant is allocated to municipalities to improve municipal systems and was used to improve information technology networks and Ward Committee operations. All conditions attached to the grant were met. No funds have been withheld.

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

2012	2011
R	R

29. GOVERNMENT GRANTS AND SUBSIDIES (Continued)

29.5 National: Department Water Affairs and Forestry (DWAF)

Balance unspent at beginning of year	-	-
Current year receipts	141,410	217,710
Interest allocated	-	-
Conditions met - transferred to Revenue: Operating Expenses	(141,410)	(217,710)
Conditions met - transferred to Revenue: Capital Expenses	-	-
Conditions still to be met - transferred to Liabilities (see Note 18)	-	-

This grant was used to cover the cost relating to the water testing. All conditions attached to the grant were met. No funds have been withheld.

29.6 National: Department Minerals and Energy (DME)

Balance unspent at beginning of year	-	-
Current year receipts	260,000	540,000
Interest allocated	-	-
Conditions met - transferred to Revenue: Operating Expenses	(260,000)	(540,000)
Conditions met - transferred to Revenue: Capital Expenses	-	-
Conditions still to be met - transferred to Liabilities (see Note 18)	-	-

The DME allocates funds on an annual basis to ensure that infrastructure is maintained and improved. The grant was utilised for this purpose. All conditions attached to the grant were met. No funds have been withheld.

29.7 Provincial: Department of Housing

Balance unspent at beginning of year	-	438,004
Current year receipts	-	5,964,750
Interest allocated	-	-
Conditions met - transferred to Revenue: Operating Expenses	(20,000)	(7,467,708)
Conditions met - transferred to Revenue: Capital Expenses	-	-
Other transfers	20,000	1,064,954
Conditions still to be met - transferred to Liabilities (see Note 18)	-	-

This grant was allocated for eradication of the housing backlog that may exist within the Municipal boundaries. All conditions attached to the grant were met. No funds have been withheld.

29.8 Provincial: Department of Sports, Arts and Culture

Balance unspent at beginning of year	150,000	-
Current year receipts	-	150,000
Interest allocated	-	-
Conditions met - transferred to Revenue: Operating Expenses	-	-
Conditions met - transferred to Revenue: Capital Expenses	-	-
Other transfers	-	-
Conditions still to be met - transferred to Liabilities (see Note 18)	150,000	150,000

This grant was allocated for the upgrade of the Phandulwazi Library in accordance with the submitted business plan. No funds have been withheld.

At year end, not all conditions were met in respect to the upgrading of the library as all funds received were not spent. This is due to the fact that the required infrastructure has not been completed and no certificates have been presented for payment. This resulted in the unspent portion being recognised at year end.

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

	2012 R	2011 R
29. GOVERNMENT GRANTS AND SUBSIDIES (Continued)		
29.9 Provincial: Department of Sports, Arts and Culture		
Balance unspent at beginning of year	-	638,333
Current year receipts	-	-
Interest allocated	-	-
Conditions met - transferred to Revenue: Operating Expenses	-	-
Conditions met - transferred to Revenue: Capital Expenses	-	(977,821)
Other transfers	-	339,488
Conditions still to be met - transferred to Liabilities (see Note 18)	<u>-</u>	<u>-</u>

This grant was used for the Sports and Recreation facilities. All conditions attached to the grant were met. No funds have been withheld.

29.10 Provincial: Hydroponic Houses

Balance unspent at beginning of year	128,600	-
Repayment of unused funds	(128,600)	-
Current year receipts	-	288,600
Interest allocated	-	-
Conditions met - transferred to Revenue: Operating Expenses	-	(160,000)
Conditions met - transferred to Revenue: Capital Expenses	-	-
Conditions still to be met - transferred to Liabilities (see Note 18)	<u>-</u>	<u>128,600</u>

The grant was received for the repair of the Hydroponic Vegetable Houses. All conditions attached to the grant were met. No funds have been withheld.

29.11 Provincial: EPWP

Balance unspent at beginning of year	-	-
Current year receipts	-	249,334
Interest allocated	-	-
Conditions met - transferred to Revenue: Operating Expenses	-	(249,334)
Conditions met - transferred to Revenue: Capital Expenses	-	-
Conditions still to be met - transferred to Liabilities (see Note 18)	<u>-</u>	<u>-</u>

The grant was received for the Employee Wellness Programme. All conditions attached to the grant were met. No funds have been withheld.

29.12 Provincial: Department of Sports, Arts and Culture

Balance unspent at beginning of year	-	-
Current year receipts	690,000	440,000
Interest allocated	-	-
Conditions met - transferred to Revenue: Operating Expenses	(690,000)	(440,000)
Conditions met - transferred to Revenue: Capital Expenses	-	-
Other transfers	-	-
Conditions still to be met - transferred to Liabilities (see Note 18)	<u>-</u>	<u>-</u>

This grant was allocated for the upgrading of library equipment and operating expenses. All conditions attached to the grant were met. No funds have been withheld.

29.13 Provincial: Department of Health

Balance unspent at beginning of year	-	-
Current year receipts	7,189,737	-
Interest allocated	-	-
Conditions met - transferred to Revenue: Operating Expenses	-	-
Conditions met - transferred to Revenue: Capital Expenses	(192,930)	-
Conditions still to be met - transferred to Liabilities (see Note 18)	<u>6,996,807</u>	<u>-</u>

This grant was allocated for the construction of the electricity line for the new hospital (included in Appendix "B"). No funds have been withheld.

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

2012	2011
R	R

29. GOVERNMENT GRANTS AND SUBSIDIES (Continued)

At year end, not all conditions were met in respect to the upgrading of infrastructure as all funds received were not spent. This is due to the fact that the required infrastructure has not been completed and no certificates have been presented for payment. This resulted in the unspent portion being recognised at year end.

29.14 Provincial - Housing Accreditation

Balance unspent at beginning of year	-	-
Current year receipts	218,056	510,000
Interest allocated	-	-
Conditions met - transferred to Revenue: Operating Expenses	(218,056)	(510,000)
Conditions met - transferred to Revenue: Capital Expenses	-	-
Conditions still to be met - transferred to Liabilities (see Note 18)	-	-
	<hr/>	<hr/>

This grant was allocated to improve capacity within the administration of the municipality in respect to the Housing Department. All conditions attached to the grant were met. No funds have been withheld.

29.15 National: Department Water and Forests (EU funding)

Balance unspent at beginning of year	-	-
Current year receipts	330,736	-
Interest allocated	-	-
Conditions met - transferred to Revenue: Operating Expenses	(330,736)	-
Conditions met - transferred to Revenue: Capital Expenses	-	-
Conditions still to be met - transferred to Liabilities (see Note 18)	-	-
	<hr/>	<hr/>

This grant was used to cover the cost relating to new water meters and the installation thereof. All conditions attached to the grant were met. No funds have been withheld.

29.16 National: Department Water and Forests (ACIP)

Balance unspent at beginning of year	-	-
Current year receipts	281,272	-
Interest allocated	-	-
Conditions met - transferred to Revenue: Operating Expenses	(281,272)	-
Conditions met - transferred to Revenue: Capital Expenses	-	-
Conditions still to be met - transferred to Liabilities (see Note 18)	-	-
	<hr/>	<hr/>

This grant was used to cover the cost relating to new water meters and the installation thereof. All conditions attached to the grant were met. No funds have been withheld.

29.17 Other Government

Balance unspent at beginning of year	39,188	39,188
Current year receipts	-	-
Interest allocated	-	-
Conditions met - transferred to Revenue: Operating Expenses	-	-
Conditions met - transferred to Revenue: Capital Expenses	-	-
Conditions still to be met - transferred to Liabilities (see Note 18)	<hr/>	<hr/>

The District Municipality allocates funds on an annual basis to ensure that infrastructure is maintained and improved. The grant was utilised for this purpose. All conditions attached to the grant have not been met as the funds have not been spent. No funds have been withheld.

29.18 Changes in levels of Government Grants

Based on the allocations set out in the Division of Revenue Act, (Act No 2 of 2011), government grant funding is expected to increase over the forthcoming three financial years.

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

	2012 R	2011 R
30. SERVICE CHARGES		
Sale of Electricity	46,442,266	38,907,785
Sale of Water	15,575,091	13,370,895
Refuse Removal	4,946,593	4,695,605
Sewerage and Sanitation Charges	8,796,668	9,011,456
Other Service Charges	466,106	19,391
Total Service Charges	<u>76,226,722</u>	<u>66,005,131</u>
The amounts disclosed above for revenue from Service Charges are in respect of services rendered which are billed to the consumers on a monthly basis according to approved tariffs.		
31. RENTAL OF FACILITIES AND EQUIPMENT		
Rental Revenue from Halls	561,034	544,807
Rental Revenue from Land	1,693	7,746
Rental Revenue from Other Facilities	24,374	13,049
Total Rental of Facilities and Equipment	<u>587,101</u>	<u>565,603</u>
Rental revenue earned on Facilities and Equipment is in respect of Non-financial Assets rented out.		
32. INTEREST EARNED		
Property Rates:		
Penalties imposed and Collection Charges	223,361	175,921
	<u>223,361</u>	<u>175,921</u>
External Investments:		
Bank Account	45,715	136
Investments	539,321	891,260
Other Deposits	8	11,997
	<u>585,044</u>	<u>903,394</u>
Outstanding Debtors:		
Outstanding Billing Debtors	1,115,696	842,999
	<u>1,115,696</u>	<u>842,999</u>
Total Interest Earned	<u>1,924,100</u>	<u>1,922,314</u>
Interest Earned on Financial Assets, analysed by category of asset, is as follows:		
Available-for-Sale Financial Assets	585,044	903,394
Loans and Receivables	1,339,057	1,018,921
	<u>1,924,100</u>	<u>1,922,314</u>
33. OTHER REVENUE		
Building Plan Fees	31,244	21,420
Cemetery Fees	227,622	166,341
Insurance Claims	201,458	275,837
Own Income VAT	1,292,959	1,179,006
Reconnection Fees	175,872	190,385
Profit on Secure Centre Project	-	905,603
Sundry Income	106,500	102,734
Sundry Levies	3,511,711	983,404
Impairment Reversal	-	16,373,133
Total Other Revenue	<u>5,547,365</u>	<u>20,197,863</u>

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

2012	2011
R	R

33. OTHER REVENUE (Continued)

The amounts disclosed above for Other Revenue are in respect of services, other than described in Notes 26 to 32, rendered which are billed to or paid for by the users as the services are required according to approved tariffs.

34. EMPLOYEE RELATED COSTS

Employee Related Costs - Salaries and Wages	34,281,885	32,923,791
Basic Salaries and Wages	31,513,109	29,148,288
Leave Encashed	544,511	972,324
Contribution to Leave Fund	-	533,625
Service Bonuses	2,224,264	2,269,553
Employee Related Costs - Contributions for UIF, Pensions and Medical Aids	8,052,590	7,714,277
Group Life	66,144	59,176
Medical	1,745,114	1,822,447
Pension	5,541,018	5,180,538
Industrial Council Levy	19,352	16,211
Skills Development Levy	378,174	354,304
UIF	302,788	281,601
Travel, Motor Car, Accommodation, Subsistence and Other Allowances	1,986,716	1,909,253
Allowances	1,986,716	1,909,253
Housing Benefits and Allowances	109,463	110,895
Overtime Payments	2,187,656	1,330,999
Long-service Award Liability Expense:	298,784	2,307,237
Current service cost	286,199	2,331,268
Interest cost	164,298	159,922
Benefit vesting	(323,311)	(219,883)
Actuarial losses / (gains)	171,598	35,930
Defined Benefit Plan Expense:	(690,045)	5,195,044
Current Service Cost	216,587	194,353
Interest Cost	2,263,243	1,920,641
Net Actuarial (gains)/losses recognised	(3,169,875)	3,080,050
Total Employee Related Costs	46,227,048	51,491,497

Remuneration of Section 57 Employees (Key Management):

Remuneration of the Municipal Manager

Annual Remuneration	505,349	486,491
Performance Bonus	91,015	60,059
Car and Other Allowances	327,463	289,758
Company Contributions to UIF, Medical and Pension Funds	76,443	93,067
Total	1,000,270	929,374

Remuneration of the Chief Financial Officer

Annual Remuneration	554,154	522,336
Performance Bonus	84,222	71,456
Car and Other Allowances	189,819	178,808
Company Contributions to UIF, Medical and Pension Funds	94,029	88,728
Total	922,225	861,328

Remuneration of the Director: Corporate, Community and Development Services

Annual Remuneration	351,173	326,433
Performance Bonus	-	46,203
Car and Other Allowances	75,369	76,737
Company Contributions to UIF, Medical and Pension Funds	93,742	52,814
Total	520,284	502,187

The post was vacant for the period 01 March 2011 to 31 August 2011, for which period an Acting Allowance was paid.

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

2012	2011
R	R

34. EMPLOYEE RELATED COSTS (Continued)

Remuneration of the Director: Infrastructure and Housing Services

Annual Remuneration	566,408	562,319
Performance Bonus	80,595	60,781
Car and Other Allowances	133,695	140,953
Company Contributions to UIF, Medical and Pension Funds	103,501	96,461
Total	884,199	860,514

35. REMUNERATION OF COUNCILLORS

Mayor	591,626	565,115
Speaker	482,284	454,964
Councillors	1,995,640	1,943,276
Company Contributions to UIF, Medical and Pension Funds	213,480	127,301
Other Allowances (Cellular Phones and Motor)	138,216	132,486
Total Councillors' Remuneration	3,421,246	3,223,142

In-kind Benefits

The Councillors occupying the positions of Mayor and Speaker of the municipality serve in a full-time capacity. They are provided with office accommodation and secretarial support at the expense of the municipality in order to enable them to perform their official duties.

The Mayor has use of a Council owned vehicle for official duties.

36. DEPRECIATION AND AMORTISATION

Depreciation: Property, Plant and Equipment	68,059,142	66,689,405
Amortisation: Intangible Assets	591,283	147,708
Total Depreciation and Amortisation	68,650,425	66,837,113

37. IMPAIRMENT LOSSES

37.1 Impairment Losses on Fixed Assets

Impairment Losses Recognised:	85,195	1,765,894
Property, Plant and Equipment	85,195	1,765,894
	85,195	1,765,894

37.2 Impairment Losses on Financial Assets

Impairment Losses Recognised:	16,886,024	-
Consumer Debtors	16,886,024	-
Other Debtors	-	-
	16,886,024	-
Total Impairment Losses	16,971,219	1,765,894

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

	2012 R	2011 R
38. REPAIRS AND MAINTENANCE		
Building and Structure	602,561	638,692
Cleaning of Suburbs	97,604	73,259
Computer Equipment	649,335	502,803
Electricity	1,414,772	1,943,567
Equipment and Tools	426,468	327,795
Fences	17,850	34,351
Landfill Site	54,825	
Office Equipment	295,253	170,151
Roads	966,802	1,273,965
Sewerage	25,989	320,625
Solid Waste	35,525	24,028
Storm Water	333,034	319,471
Sundry	20,014	17,482
Vehicles and Machinery	1,397,021	1,185,145
Ward Projects	1,732,242	2,528,631
Water	609,931	354,356
	8,679,226	9,714,320

Repairs and maintenance represents costs incurred in normal business for repairs and maintenance required to ensure service delivery can be provided.

39. FINANCE COSTS

Bank Overdraft	1,497	10,669
External Loans	1,278,855	735,428
Finance Leases	4,135	8,759
Total Interest Expense	1,284,487	754,856
Less: Amounts included in the Cost of Qualifying Assets	-	-
Total Interest Paid on External Borrowings	1,284,487	754,856

40. BULK PURCHASES

Electricity	33,173,974	25,508,634
Water	931,628	870,952
Total Bulk Purchases	34,105,602	26,379,586

Bulk Purchases are the cost of commodities not generated by the municipality, which the municipality distributes in the municipal area for resale to the consumers. Electricity is purchased from Eskom whilst Water is purchased from various sources within the municipal boundaries.

41. CONTRACTED SERVICES

Professional Fees	3,241,950	2,278,448
Security Services	947,368	1,043,216
Other Contracted Services	4,500,152	5,648,666
Total Contracted Services	8,689,470	8,970,331

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

	2012 R	2011 R
42. GRANTS AND SUBSIDIES PAID		
Community Projects	120,395	-
Other Grants and Subsidies Paid	667,777	567,870
Total Grants and Subsidies	788,172	567,870

The Accreditation Expenses are incurred by the municipality in order to further housing projects within the municipal boundaries. This represents a subsidy paid by the municipality to ensure the success of the respective housing projects.

43. GENERAL EXPENSES

Included in General Expenses are the following:

Advertising	220,706	320,804
Assessment Rates and Municipal Charges	1,643,858	1,190,323
Audit Fees	1,882,181	1,436,821
Bank Charges	368,943	374,675
Branding of the Municipality	185,655	1,768,484
Cleaning Material	86,734	82,044
Conference Fees	10,695	17,602
Driving License Fees	47,475	44,819
Electricity Rural Water Pumps	1,048,997	898,505
Entertainment	143,952	183,641
Festivals	305,137	268,419
Fuel and Oil	2,526,519	1,967,607
Grave Excavations	67,723	28,500
HR Employee Wellness	372,459	85,201
Hiring of Equipment	1,005,022	1,005,153
IDP Review	23,220	103,364
Insurance	805,263	1,040,283
Internal Audit	119,693	122,908
Lease Charges	10,376	9,365
Legal Costs	189,075	47,635
Levies: SALGA	409,684	216,305
License Fees and Subscriptions	319,089	317,705
Magazines and Reference Work	965	22,291
Motor Vehicle Expenses	132,458	90,395
Performance Appraisal System	38,060	55,510
Printing and Stationery	947,115	1,053,007
Protective Clothing	66,789	193,348
Sundry Expenses	1,105,492	84,974
Strategic Planning Expenses	240,031	532,316
Telephone Cost	1,183,539	1,206,648
Tourism Strategy	357,858	530,138
Training Costs	102,007	216,981
Travelling and Subsistence	1,738,483	1,772,104
Water	274,425	207,483
Workmen's Compensation	2,592	36,907
Total General Expenses	17,982,271	17,532,266

44. OTHER GAINS AND LOSSES

Change in Fair Value of Financial Assets designated as at FVTPL (See Note 13)	3,262	467
Net Other Gains and Losses	3,262	467

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

2012	2011
R	R

45. CORRECTION OF ERROR

Corrections were made and adjusted to the Accumulated Surplus Account during the financial years ended 30 June 2011 and 30 June 2012.

Details of the adjustments are as follows:

Statement of Financial Position:

VAT Receivables	45.2; 45.4; 45.8; 45.14	-	3,274,007
Inventory	45.11; 45.13	45,986,510	45,388,485
Current Portion: Operating Lease Asset		43,480	43,480
Trade Receivables from Non-Exchange Transactions	45.22	40,831,218	2,750,563
Trade and Other Receivables from Exchange Transactions	45.4; 45.22	7,192,399	6,962,536
Current Portion: Long-term Receivables from Exchange Transactions		13,438	13,438
Cash and Cash Equivalents	45.2; 45.9; 45.10; 45.12	9,160,617	9,160,617
Property, Plant and Equipment	45.18 - 45.20	1,075,119,947	817,864,390
Intangible Assets	45.17	1,611,012	1,034,110
Investment Property	45.21	3,440,900	4,272,026
Non-Current Investments		7,678	7,678
Operating Lease Asset		200,253	200,253
Long-term Receivables from Exchange Transactions		30,127	30,126
Consumer Deposits	45.2; 45.9	(1,710,551)	(1,710,285)
Provisions		(1,091,123)	(1,091,123)
Creditors from Exchange Transactions	45.2 - 45.7; 45.14; 45.16	(8,214,306)	(7,632,374)
Creditors from Non-exchange Transactions	45.5	(728,078)	(693,399)
Unspent Conditional Grants and Receipts		(2,325,390)	(2,325,389)
VAT Payable	45.2; 45.4; 45.8; 45.14	(4,036,539)	-
Bank Overdraft	45.2; 45.9; 45.10; 45.12	(4,020,092)	(3,847,137)
Current Portion of Long-term Liabilities		(2,024,986)	(2,024,986)
Long-term Liabilities		(10,792,633)	(10,792,632)
Retirement Benefit Liabilities		(25,507,607)	(25,507,607)
Long Service Award		(2,307,237)	(2,307,237)
Non-current Provisions		(2,412,280)	(2,412,280)
Reserves	45.1	(198,634,515)	(271,306,949)
Accumulated Surplus / (Deficit) - Opening balance		(559,350,311)	(559,350,311)
Accumulated Surplus / (Deficit) - (Profit) / loss for the year		(11,838,358)	-
Accumulated Surplus - Prior Year Adjustments	45.1 - 45.14; 45.17 - 45.21	(348,643,575)	-
		(0)	-
		=====	=====

Statement of Financial Performance:

Service Charges	45.8	3,884
Employee Related Costs	45.6; 45.16	47,586
Depreciation and Amortisation	45.17 - 45.20	19,128,143
Impairment Losses	45.15; 45.18; 45.22	-14,833,631
Repairs and Maintenance	45.8; 45.10	169,830
Contracted Services	45.8	-9,765
General Expenses	45.5; 45.8; 45.9	28,729
Other Income	45.22	-16,373,133
		(11,838,358)
		=====

45.1 Misstatement of Revaluation Reserve:

During the 2010/2011 financial year the municipality recognised and measured all land and buildings retrospectively as required by Directive 4. All land and buildings at 1 July 2009 were revalued which resulted in the recognition of a Revaluation Reserve. The accumulated depreciation at 1 July 2009 was however incorrectly allocated to the Accumulated Surplus balance and not the Revaluation Reserve balance as required.

The effect of the Correction of Error is as follows:

Statement of Financial Position:		
(Increase) / decrease in Accumulated Surplus	(78,866,514)	(78,866,514)
(Increase) / decrease in Revaluation Reserve	78,866,514	78,866,514

=====	=====
-	-

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

2012	2011
R	R

45. CORRECTION OF ERROR (Continued)

45.2 Clearing of Bank Reconciliation items:

During the 2011/2012 financial year the municipality cleared all "old" bank reconciling items. As these pertained to items identified during the GAMAP/GRAP conversion, these occurred prior to 1 July 2010 and was therefore cleared to the Accumulated Surplus opening at 1 July 2010.

The effect of the Correction of Error is as follows:

Statement of Financial Position:

(Increase) / decrease in Accumulated Surplus	(8,297)	(8,297)
(Increase) / decrease in Bank Overdraft	6,344	6,344
(Increase) / decrease in Consumer Deposits	855	855
Increase / (decrease) in VAT Receivable	137	137
(Increase) / decrease in Creditors from Exchange Transactions	961	961
	-	-
	-	-

45.3 Reconciliation of Transnet consumer debtor:

During the current financial year the Transnet consumer debtor provided evidence that an outstanding balance of R496 492 was paid. On inspection it was found that this balance relates to services levied prior to 1 July 2010. During the GAMAP / GRAP conversion, these unallocated deposits were however allocated to the Accumulated Surplus.

The effect of the Correction of Error is as follows:

Statement of Financial Position:

(Increase) / decrease in Accumulated Surplus	496,492	496,492
(Increase) / decrease in Trade Receivables from Exchange Transactions	(496,492)	(496,492)
	-	-
	-	-

45.4 Indigent debtor not recognised in prior year:

During the current financial year the municipality identified a debtor that qualified as an indigent debtor, but the services were never accounted for as such.

The effect of the Correction of Error is as follows:

Statement of Financial Position:

(Increase) / decrease in Accumulated Surplus	3,886	-
Increase / (decrease) in VAT Receivable	544	544
(Increase) / decrease in Trade and Other from Exchange Transactions	(4,430)	(4,430)

Statement of Financial Performance:

(Increase) / decrease in Service Charges	-	3,886
	-	-
	-	-

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

2012	2011
R	R

45. CORRECTION OF ERROR (Continued)

45.5 Prior year creditors not provided for:

During the current financial year a number of creditors (which were paid in 2011/2012) were for expenses incurred in the 2010/2011 financial year. These were retrospectively corrected.

The effect of the Correction of Error is as follows:

Statement of Financial Position:

(Increase) / decrease in Accumulated Surplus	34,385	-
(Increase) / decrease in Creditors from Exchange Transactions	(34,385)	(34,385)

Statement of Financial Performance:

Increase / (decrease) in General Expenses	-	34,385
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45.6 Prior year provision for bonuses:

The 2010/2011 provision for bonuses was subsequently corrected in order to ensure the balance is accurately reflected.

The effect of the Correction of Error is as follows:

Statement of Financial Position:

(Increase) / decrease in Accumulated Surplus	(555,781)	-
(Increase) / decrease in Creditors from Exchange Transactions	555,781	555,781

Statement of Financial Performance:

Increase / (decrease) in Employee Related Costs	-	(555,781)
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45.7 Reversal of Land Sold receipt:

During 2009/2010 property was sold to IS Leeuw. This transaction was however reversed in the current year and the receipts to date was refunded.

The effect of the Correction of Error is as follows:

Statement of Financial Position:

(Increase) / decrease in Accumulated Surplus	5,077	5,077
(Increase) / decrease in Creditors from Non-exchange Transactions	(5,077)	(5,077)
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EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

2012	2011
R	R

45. CORRECTION OF ERROR (Continued)

45.8 Review of input VAT:

During the year a VAT review was performed, which identified VAT that was not claimed. This has been corrected retrospectively.

The effect of the Correction of Error is as follows:

Statement of Financial Position:

(Increase) / decrease in Accumulated Surplus	(31,117)	(5,532)
Increase / (decrease) in VAT receivable	31,117	31,117

Statement of Financial Performance:

Increase / (decrease) in Repairs and Maintenance	(1,670)
Increase / (decrease) in Contracted Services	(9,765)
Increase / (decrease) in General Expenses	(14,148)
(Increase) / decrease in Service Charges	(2)

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45.9 Cheques cancelled in the 2011/2012 year:

During the 2011/2012 financial year, cheques were cancelled which pertained to the 2010/2011 financial year. The retrospective corrections were made.

The effect of the Correction of Error is as follows:

Statement of Financial Position:

(Increase) / decrease in Accumulated Surplus	8,492	-
Increase / (decrease) in Cash and Cash Equivalents	(7,370)	(7,370)
(Increase) / decrease in Consumer Deposits	(1,122)	(1,122)

Statement of Financial Performance:

Increase / (decrease) in General Expenses	-	8,492
	—————	—————

45.10 Repairs and maintenance paid, but not recorded in financial records:

During review of the bank reconciliation it was found that repairs and maintenance paid in the 2011 financial year was not recorded and was therefore still unreconciled on the bank reconciliation.

The effect of the Correction of Error is as follows:

Statement of Financial Position:

Increase / (decrease) in Cash and Cash Equivalents	(171,500)	(171,500)
(Increase) / decrease in Accumulated Surplus	171,500	

Statement of Financial Performance:

Increase / (decrease) in Repairs and Maintenance	171,500
	—————

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

2012	2011
R	R

45. CORRECTION OF ERROR (Continued)

45.11 Land-held-for-sale balance at 1 July 2009 incorrect:

While reviewing the 2011 and 2012 Property-held-for-Sale register, it was found that the initial amount accounted for (as per Directive 4) was misstated. This misstatement has been subsequently corrected.

The effect of the Correction of Error is as follows:

Statement of Financial Position:

Increase / (decrease) in Inventory	817,960	817,960
(Increase) / decrease in Accumulated Surplus	(817,960)	(817,960)
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45.12 Reversal of RD cheque of previous financial year:

Cheque from previous year was identified as RD cheque. This cheque was paid by a church in Johannesburg for the rent of the Hanover hall. The reversal of this cheque was subsequently accounted for.

The effect of the Correction of Error is as follows:

Statement of Financial Position:

Increase / (decrease) in Cash and Cash Equivalents	(429)	(429)
(Increase) / decrease in Accumulated Surplus	429	429
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45.13 Accounting for No-charge Items:

The municipality inspected all inventory held in store and determined which items should not have formed part of the store as these are of a no charge nature. The necessary adjustment was made.

The effect of the Correction of Error is as follows:

Statement of Financial Position:

Increase / (decrease) in Inventory	(219,935)	(219,935)
(Increase) / decrease in Accumulated Surplus	219,935	219,935
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45.14 Reconciliation of Property-held-for-sale register:

The prepayments received for property sold were updated in the current year and adjusted retrospectively.

The effect of the Correction of Error is as follows:

Statement of Financial Position:

(Increase) / decrease in Creditors from Non-exchange Transactions	(29,602)	(29,602)
(Increase) / decrease in Accumulated Surplus	29,602	29,602
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EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

2012	2011
R	R

45. CORRECTION OF ERROR (Continued)

45.15 VAT on provision for :

During adjustments made to the 2011 Annual Financial Statements (as identified during the audit), the provision for doubtful debts was adjusted. The VAT portion of the adjustment was incorrectly accounted for resulting in the overstatement of the VAT balance at year end.

The effect of the Correction of Error is as follows:

Statement of Financial Position:

Increase / (decrease) in VAT	(3,629,142)	(3,629,142)
(Increase) / decrease in Accumulated Surplus	3,629,142	

Statement of Financial Performance:

Increase / (decrease) in Impairment Losses	3,629,142	
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45.16 Provision for leave:

Management investigated all annual leave transactions from 1 July 2010, which resulted in an adjustment being made to the annual leave provision.

The effect of the Correction of Error is as follows:

Statement of Financial Position:

(Increase) / decrease in Accumulated Surplus	603,367	
(Increase) / decrease in Creditors from Exchange Transactions	(603,367)	(603,367)

Statement of Financial Performance:

Increase / (decrease) in Employee Related Costs	603,367	
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45.17 Amortisation expense restated:

During the review of the Intangible Asset Register, it was found that the amortisation expense for the 2011 financial year was overstated. This was subsequently corrected.

The effect of the Correction of Error is as follows:

Statement of Financial Position:

(Increase) / decrease in Accumulated Surplus	(576,902)	(334,770)
Increase / (decrease) in Intangible Assets	576,902	576,902

Statement of Financial Performance:

Increase / (decrease) in Amortisation Expense	(242,132)	
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EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

2012	2011
R	R

45. CORRECTION OF ERROR (Continued)

45.18 Infrastructure assets reviewed and corrected:

During the current financial year management reviewed all infrastructure assets based on the findings identified in the 2011 audit report. This resulted in a number of misstatements being identified that were subsequently corrected.

The effect of the Correction of Error is as follows:

Statement of Financial Position:

(Increase) / decrease in Accumulated Surplus	(265,851,070)	(285,734,220)
Increase / (decrease) in Property, Plant and Equipment	265,851,070	265,851,070

Statement of Financial Performance:

Increase / (decrease) in Depreciation Expense	20,121,699	
Increase / (decrease) in Impairment Expense	(238,550)	

45.19 Movable assets identified:

During the movable asset verification conducted in the current financial year, movable assets were identified that existed prior to 1 July 2010 which were not identified in the prior year verification.

The effect of the Correction of Error is as follows:

Statement of Financial Position:

(Increase) / decrease in Accumulated Surplus	(159,343)	(188,084)
Increase / (decrease) in Property, Plant and Equipment	159,343	159,343

Statement of Financial Performance:

Increase / (decrease) in Depreciation Expense	28,741	
---	--------	--

45.20 Land & building assets reviewed and corrected:

During the current financial year management reviewed all land and building assets based on the findings identified in the 2011 audit report. This resulted in a number of misstatements being identified that were subsequently corrected.

The effect of the Correction of Error is as follows:

Statement of Financial Position:

(Increase) / decrease in Accumulated Surplus	8,754,857	9,535,022
Increase / (decrease) in Property, Plant and Equipment	(8,754,857)	(8,754,857)

Statement of Financial Performance:

Increase / (decrease) in Depreciation Expense	(780,165)	
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45.21 Investment property reviewed and corrected:

During the current financial year management reviewed all investment properties based on the findings identified in the 2011 audit report. This resulted in a number of misstatement being identified that was subsequently corrected.

The effect of the Correction of Error is as follows:

Statement of Financial Position:

(Increase) / decrease in Accumulated Surplus	831,126	831,126
Increase / (decrease) in Investment Property	(831,126)	(831,126)

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

2012	2011
R	R

45. CORRECTION OF ERROR (Continued)

45.22 Prior year provision for impairment

It was found that the prior year provision for debtor impairment was overstated. This has been subsequently corrected.

The effect of the Correction of Error is as follows:

Statement of Financial Position:

(Increase) / decrease in Accumulated Surplus	(34,597,356)	
Increase / (decrease) in Trade Receivables from Exchange	33,868,722	33,868,722
Increase / (decrease) in Trade Receivables from Non-Exchange	4,441,836	4,441,836
Increase / (decrease) in VAT Receivable	(3,713,202)	(3,713,202)

Statement of Financial Performance:

Increase / (decrease) in Bad Debts	(18,224,223)	
(Increase) / decrease in Other Income	(16,373,133)	
	0	0

46. CHANGE IN ACCOUNTING ESTIMATES

The municipality did not receive any new information or notice of new developments during the financial year that need to be disclosed in terms of GRAP 3.

46.1 Depreciation Expenditure:

The residual values, estimated useful lives and depreciation / amortisation method were reviewed at 30 June 2012. Adjustments to the useful lives effect the amount of depreciation and amortisation for the current year and are expected to effect future periods as well. The adjustments are as follows:

Increase / (Decrease) in Depreciation due to adjustments to Useful Lives of PPE	203,785	-
Increase / (Decrease) in Depreciation due to adjustments to Useful Lives of Intangible Assets	13,580	-

Increase / (Decrease) in Depreciation of PPE

217,365	-
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Depreciation and Amortisation as previously stated	68,433,060	-
Adjustment due to Change in Accounting Estimate - PPE	203,785	-
Adjustment due to Change in Accounting Estimate - Intangible Assets	13,580	-

Depreciation and Amortisation as per Note 36

68,650,425	-
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EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

	2012 R	2011 R
47. CASH GENERATED BY OPERATIONS		
(Deficit) for the Year	(56,870,146)	(36,060,358)
Adjustment for:		
Depreciation and Amortisation	68,650,425	68,266,345
Impairment Losses on Property, Plant and Equipment	85,195	1,765,894
Gains on Disposal of Property, Plant and Equipment	44,914	(16,791)
Other Movement on Property, Plant and Equipment		(5,195,421)
Profit on Sale of Land	288,719	382,404
Other Movement on Non-current Investments	(3,262)	
Contribution to Retirement Benefit Liabilities	(690,045)	
Contribution to Provisions - Current	54,825	2,307,237
Contribution to Provisions - Non-current		6,797,678
Expenditure incurred from Provisions - Current		(533,625)
Expenditure incurred from Provisions - Non-current	298,784	
Contribution to Impairment Provision		18,224,223
Inventory Written-off	60,870	605,257
Dividends Received		(540)
Investment Income	(1,924,100)	(1,922,314)
Finance Costs	1,284,487	754,856
Operating surplus before working capital changes	11,280,666	55,374,844
Decrease/(Increase) in Inventories	(153,101)	114,661
Decrease/(Increase) in Trade Receivables from Exchange Transactions	1,686,709	(43,223,792)
Decrease/(Increase) in Trade Receivables from Non-exchange Transactions	(596,364)	(7,674,562)
Decrease/(Increase) in VAT Receivable	(1,847,280)	3,400,815
Decrease/(Increase) in Operating Lease Assets	44,179	12,553
Increase/(Decrease) in Consumer Deposits	71,363	76,137
Increase/(Decrease) in Creditors	3,833,908	(209,280)
Increase/(Decrease) in Conditional Grants and Receipts	9,629,036	(1,117,394)
Cash generated by Operations	23,949,115	6,753,982
48. NON-CASH INVESTING AND FINANCING TRANSACTIONS		
The municipality did not enter into any Non-cash Investing and Financing Transactions during the 2011/12 financial year.		
49. FINANCING FACILITIES		
Unsecured Bank Overdraft Facility, reviewed annually and payable on call:		
- Amount used	-	-
- Amount unused	1,000,000	1,000,000
- Debit Order facility for Debtors	1,000,000	1,000,000
- Credit Facility for Office Automation	1,000,000	1,000,000
	3,000,000	3,000,000
Unsecured Credit Card Facility, reviewed annually and payable monthly:		
- Amount used	-	-
- Amount unused	50,000	40,000
	50,000	40,000
Unsecured Fleet Card Facility, reviewed annually and payable monthly:		
- Amount used	-	-
- Amount unused	50,000	50,000
	50,000	50,000
Term Loan, reviewed annually and payable monthly:		
- Amount used	-	-
- Amount unused	9,506,000	9,506,000
	9,506,000	9,506,000

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

2012
R

2011
R

50. UTILISATION OF LONG-TERM LIABILITIES RECONCILIATION

Long-term Liabilities (See Note 20)	10,767,184	12,766,499
Used to finance Property, Plant and Equipment - at cost	(10,767,184)	(12,766,499)
Sub-total	<hr/> <hr/>	<hr/> <hr/>

Long-term Liabilities have been utilised in accordance with the Municipal Finance Management Act. Sufficient cash is available to ensure that Long-term Liabilities can be repaid on the scheduled redemption dates.

51. UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE DISALLOWED

51.1 Unauthorised Expenditure

Reconciliation of Unauthorised Expenditure:

Opening balance	-	-
Unauthorised Expenditure current year	56,042,160	81,606,251
Approved by Council or condoned	(511,736)	(81,606,251)
To be recovered – contingent asset	-	-
Transfer to receivables for recovery	-	-
Unauthorised Expenditure awaiting authorisation	<hr/> <hr/>	<hr/> <hr/>

Incident	Disciplinary Steps / Criminal Proceedings
Budgeted votes exceeded:-	
Housing: This was the result of business plans prepared for which the municipality did not budget.	Condoned by Council.

The unauthorised expenditure was calculated after excluding the impact of depreciation on the different votes.

51.2 Fruitless and Wasteful Expenditure

No Fruitless and Wasteful Expenditure were incurred for either the 2010/2011 or 2011/2012 financial years.

51.3 Irregular Expenditure

Reconciliation of Irregular Expenditure:

Opening balance	-	-
Irregular Expenditure current year	16,257,924	21,009,201
Condoned or written off by Council	(16,257,924)	(21,009,201)
To be recovered – contingent asset	-	-
Transfer to receivables for recovery	-	-
Irregular Expenditure awaiting condonement	<hr/> <hr/>	<hr/> <hr/>

Incident	Disciplinary Steps / Criminal Proceedings
The following instances of non-compliance were identified:	
Not obtaining the required number of quotations contributed R2 764 674; and	Condoned by Council.
Not obtaining tax clearance certificates and declaration of interest contributed R13 493 250.	Condoned by Council.

52 ADDITIONAL DISCLOSURES IN TERMS OF MUNICIPAL FINANCE MANAGEMENT ACT

52.1 Contributions to organised local government - SALGA

Opening Balance	-	-
Council Subscriptions	409,684	216,305
Amount Paid - current year	(409,684)	(216,305)
Balance Unpaid (included in Creditors)	<hr/> <hr/>	<hr/> <hr/>

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

2012	2011
R	R

52 ADDITIONAL DISCLOSURES IN TERMS OF MUNICIPAL FINANCE MANAGEMENT ACT (Continued)

52.2 Audit Fees

Opening Balance	-	-
Current year Audit Fee	1,882,181	1,436,821
Amount Paid - current year	(1,882,181)	(1,436,821)
<hr style="border-top: 1px solid black; border-bottom: 1px solid black;"/>		
Balance Unpaid (included in Creditors)	-	-

52.3 VAT

The net of VAT input payables and VAT output receivables are shown in Note 19. All VAT returns have been submitted by the due date throughout the year.

52.4 PAYE, Skills Development Levy and UIF

Opening Balance	-	-
Current year Payroll Deductions	4,802,587	4,557,433
Amount Paid - current year	(4,802,587)	(4,557,433)
<hr style="border-top: 1px solid black; border-bottom: 1px solid black;"/>		
Balance Unpaid (included in Creditors)	-	-

52.5 Pension and Medical Aid Deductions

Opening Balance	-	-
Current year Payroll Deductions and Council Contributions	10,248,115	9,629,910
Amount Paid - current year	(10,248,115)	(9,629,910)
<hr style="border-top: 1px solid black; border-bottom: 1px solid black;"/>		
Balance Unpaid (included in Creditors)	-	-

52.6 Councillor's arrear Consumer Accounts

The following Councillors had arrear accounts outstanding for more than 90 days as at:

30 June 2012		Total	Outstanding	Outstanding
			up to	more than
			90 days	90 days
Sthonga ST	Mayor	300	300	-
Freddie MM	Speaker	285	285	-
Kivedo MC	Ward 1	12,091	1,327	10,764
Jood J	Ward 2	1,901	1,341	560
Thomas NS	Ward 4	914	914	-
Du Plessis WJ	Ward 5	1,011	1,011	-
Witbooi WA	Proportional	1,040	805	235
Malherbe M	Proportional	988	988	0
Total Councillor Arrear Consumer Accounts		18,530	6,970	11,559

30 June 2011		Total	Outstanding	Outstanding
			up to	more than
			90 days	90 days
Sthonga ST	Mayor	8,174	965	7,209
Freddie MM	Speaker	583	583	-
Kivedo MC	Ward 1	186	186	-
Nyl GL	Ward 7	726	726	-
Witbooi WA	Proportional	299	299	-
Markman BK	Mayor (previous)	1,963	1,311	652
Eksteen EP	Speaker (previous)	514	514	-
Hendricks EG	Ward 1 (previous)	1,883	538	1,345
Max S	Proportional (previous)	9,686	1,879	7,807
White GA	Proportional (previous)	5	5	-
Total Councillor Arrear Consumer Accounts		24,019	7,006	17,013

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

2012	2011
R	R

52. ADDITIONAL DISCLOSURES IN TERMS OF MUNICIPAL FINANCE MANAGEMENT ACT (Continued)

During the year the following Councillors had arrear accounts outstanding for more than 90 days:

		Highest amount outstanding	Ageing
30 June 2012			
Sthonga ST	Mayor	4,086	> 90 Days
Kivedo MC	Ward 1	11,548	> 90 Days
Jood J	Ward 2	708	> 90 Days
Witbooi WA	Proportional	1,592	> 90 Days
Jafta AF	Proportional	210	> 90 Days
30 June 2011			
Sthonga ST	Mayor	7,209	> 90 Days
Nyl GL	Ward 7	15,089	> 90 Days
Markman BK	Mayor (previous)	652	> 90 Days
Max S	Proportional (previous)	7,807	> 90 Days
Hendricks EG	Ward 1 (previous)	1,345	> 90 Days

52.7 Non-Compliance with Chapter 11 of the Municipal Finance Management Act

No known matters existed at reporting date.

52.8 Deviation from, and ratification of minor breaches of, the Procurement Processes

In terms of section 36(2) of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved / condoned by the Municipal Manager and noted by Council.

Deviations are identified and reported on a monthly basis. These deviations are only limited to the correct number of quotations that were not obtained. For the 2011/2012 financial year, these deviations amounted to R4 155 875. At year end, all payments were inspected and compared to the procurement requirements and all non-compliance items were listed as irregular expenditure, which included these deviations (where applicable). The Deviation Register is available for inspection at the municipality. Refer to Note 51.3.

52.9 Bulk Electricity and Water Losses in terms of Section 125 (2)(d)(i) of the MFMA

Material Electricity and Water Losses were as follows and are not recoverable:

Electricity:

Purchased during the year		units (kWh)	54,462,302	51,069,418
Sold during the year		units (kWh)	(42,284,880)	(40,222,706)
Unaccounted		units (kWh)	12,177,422	10,846,712
Normal distribution losses - % of electricity purchases	8.00%	units (kWh)	(4,356,984)	(4,085,553)
Loss		units (kWh)	<u>7,820,438</u>	<u>6,761,159</u>

Loss %	14.36%	13.24%
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Loss (R):	4,770,467	3,380,579
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Calculated as follows:

	%	Lost Units	Tariff	Value
30 June 2012				
Total Electricity Losses	100.00%	7,820,438	@	4,770,467
Household - sub	2.06%	160,916	0.6100	98,159
Household	21.99%	1,719,807	0.6100	1,049,082
Business	15.31%	1,197,306	0.6100	730,356
Rural	0.19%	14,973	0.6100	9,133
Large Consumers	13.19%	1,031,235	0.6100	629,053
Transnet	5.49%	429,476	0.6100	261,980
Streetlights	5.20%	407,008	0.6100	248,275
Departmental	1.11%	86,909	0.6100	53,014
Departmental - Large	0.01%	548	0.6100	334
Departmental - Rural	0.08%	5,945	0.6100	3,627
Departmental - Large	0.01%	652	0.6100	398
Pre-paid meters	35.36%	2,765,664	0.6100	1,687,055

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

2012	2011
R	R

52. ADDITIONAL DISCLOSURES IN TERMS OF MUNICIPAL FINANCE MANAGEMENT ACT (Continued)

30 June 2011

Total Electricity Losses	100.00%	6,761,159	@	3,380,579
Household - sub	1.91%	129,106	0.5000	64,553
Household	19.41%	1,312,468	0.5000	656,234
Business	14.49%	979,682	0.5000	489,841
Rural	0.22%	15,161	0.5000	7,580
Large Consumers	13.71%	927,056	0.5000	463,528
Transnet	5.73%	387,647	0.5000	193,824
Streetlights	7.22%	488,311	0.5000	244,155
Departmental	1.01%	67,983	0.5000	33,992
Departmental - Large	0.01%	431	0.5000	215
Departmental - Rural	0.08%	5,537	0.5000	2,768
Departmental - Large	0.01%	758	0.5000	379
Pre-paid meters	36.19%	2,447,019	0.5000	1,223,510

Electricity Losses occur due to *inter alia*, the tampering of meters, the incorrect ratios used on bulk meters, faulty meters and illegal electricity connections. The municipality is currently busy with an audit of bulk meters to find faulty meters and repair them. The problem with tampered meters and illegal connections is an ongoing process, with regular action being taken against defaulters. Faulty meters are replaced as soon as they are reported.

Water:

		Lost Units	Tariff	Value
30 June 2012	Unaccounted Water Losses	<u>479,141</u>	<u>0.33</u>	<u>156,054</u>
30 June 2011	Unaccounted Water Losses	<u>484,382</u>	<u>0.35</u>	<u>169,534</u>

Water Losses occur due to *inter alia*, leakages, the tampering of meters, the incorrect ratios used on bulk meters, faulty meters and illegal water connections. The municipality is currently busy with an audit of bulk meters to find faulty meters and repair them. The problem with tampered meters and illegal connections is an ongoing process, with regular action being taken against defaulters. Faulty meters and leakages are replaced/repaired as soon as they are reported.

52.10 Non-Compliance with MFMA, as required by MFMA Section 125(2)(e)

The following sections of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) were not adhered to:

Section	Non-compliance
Section 66(c)	The travel, motor car, accommodation, subsistence and other allowances were not reported to the council in the prescribed reports in periods as required.
Section 64(2)(b)	The revenue due has not been calculated on a monthly basis.
Section 71(2)(a)	The reports did not include a projection of the municipality's revenue and expenditure for the rest of the financial year.

53. COMMITMENTS FOR EXPENDITURE

53.1 Capital Commitments

Commitments in respect of Capital Expenditure:

- Approved and Contracted for:-	6,418,640	2,986,222
Infrastructure	5,199,371	2,117,470
Other	1,219,269	868,751
 - Approved but Not Yet Contracted for:-	 937,476	 -
Infrastructure	937,476	-
 Total Capital Commitments	 7,356,115	 2,986,222

This expenditure will be financed from:

Government Grants	7,356,115	2,986,222
	7,356,115	2,986,222

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

2012	2011
R	R

53. COMMITMENTS FOR EXPENDITURE (Continued)

53.2 *Lease Commitments*

Finance Lease Liabilities are disclosed in Note 20.

53.3 *Other Commitments*

The municipality has entered into a contract with E-Valuation for the preparation of the valuation roll and supplementary valuation roll , which will give rise to a total cost of approximately R1,792 million.

The municipality has entered into a contract with Fortogenic Solutions for Employee Wellness Programmes. The remaining outstanding balance as per tender amounts to R209,446.

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

2012	2011
R	R

54. FINANCIAL INSTRUMENTS

54.1 Classification

FINANCIAL ASSETS:

In accordance with IAS 39.09 the Financial Assets of the municipality are classified as follows (FVTPL = Fair Value through Profit or Loss):

	<u>Financial Assets</u>	<u>Classification</u>
Non-current Investments		
Listed Investments	Loans and receivables	10,940
		7,678
Long-term Receivables		
Sale of Erven	Loans and receivables	-
		28,964
Other Loans	Loans and receivables	1,164
		1,162
Receivables from Exchange Transactions		
Electricity	Loans and receivables	11,278,605
Refuse	Loans and receivables	4,300,924
Sewerage	Loans and receivables	8,905,796
Water	Loans and receivables	13,621,820
Other Debtors	Loans and receivables	1,037,408
		919,752
Bank, Cash and Cash Equivalents		
Call Deposits	Loans and receivables	8,062,686
Notice Deposits	Loans and receivables	6,284,366
Bank Balances	Loans and receivables	31,134
Cash Floats and Advances	Loans and receivables	1,160
		60,213
		1,160
Current Portion of Long-term Receivables		
Sale of Erven	Loans and receivables	-
		13,438
Receivables from Non-exchange Transactions		
Assessment Rates		6,318,480
Sundry Deposits		109,610
Sundry Debtors		1,360,673
		5,473,340
		89,000
		1,630,105
SUMMARY OF FINANCIAL ASSETS		
Held to maturity:		
Short-term Investment Deposits	Short-term Portion of Investments	6,284,366
		8,891,958
		<hr style="border-top: 1px solid black;"/>
Loans and Receivables		
Long-term Receivables	Other Loans	1,164
Long-term Receivables	Sale of Erven	-
		28,964
Receivables from Non-exchange Transactions	Assessment Rates	6,318,480
Receivables from Exchange Transactions	Electricity	11,278,605
Receivables from Exchange Transactions	Refuse	4,300,924
Receivables from Exchange Transactions	Sewerage	8,905,796
Receivables from Exchange Transactions	Water	13,621,820
Receivables from Exchange Transactions	Other Debtors	1,037,408
Receivables from Non-exchange Transactions	Sundry Deposits	109,610
Receivables from Non-exchange Transactions	Sundry Debtors	1,360,673
Current Portion of Long-term Receivables	Sale of Erven	-
Bank Balances and Cash	Bank Balances	31,134
Bank Balances and Cash	Cash Floats and Advances	1,160
Bank Balances and Cash	Call Deposits	8,062,686
Non-current Investments	Listed Investments	10,940
		7,678
		<hr style="border-top: 1px solid black;"/>
		55,040,401
		<hr style="border-top: 1px solid black;"/>
		48,343,607

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

2012 R	2011 R
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54. FINANCIAL INSTRUMENTS (Continued)

Total Financial Assets	61,324,767	57,235,565
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FINANCIAL LIABILITIES:

In accordance with IAS 39.09 the Financial Liabilities of the municipality are classified as follows (FVTPL = Fair Value through Profit or Loss):

Financial Liabilities	Classification
Long-term Liabilities	
Annuity Loans	Financial liabilities at amortised cost
	8,510,509
	10,769,029
Consumer Deposits	
Electricity and Water	Financial liabilities at amortised cost
	1,781,959
	1,710,596
Creditors from Exchange Transactions	
Trade Creditors	Financial liabilities at amortised cost
	2,641,528
Payments received in Advance	Financial liabilities at amortised cost
	1,257,370
Staff Bonuses	Financial liabilities at amortised cost
	1,174,230
Accrued Leave	Financial liabilities at amortised cost
	4,525,533
Sundry Deposits	Financial liabilities at amortised cost
	199,745
Other Creditors	Financial liabilities at amortised cost
	2,205,156
	1,146,951
Creditors from Non-exchange Transactions	
Payments received in Advance	Financial liabilities at amortised cost
	772,728
	728,078
Bank Overdraft	
Bank Overdraft	Financial liabilities at amortised cost
	5,154,118
	4,020,092
Current Portion of Long-term Liabilities	
Annuity Loans	Financial liabilities at amortised cost
	2,233,071
	1,997,470
SUMMARY OF FINANCIAL LIABILITIES	
Financial Liabilities at Amortised Cost:	
Long-term Liabilities	
	Annuity Loans
	8,510,509
	10,769,029
Consumer Deposits	
	Electricity and Water
	1,781,959
	1,710,596
Creditors from Exchange Transactions	
	Trade Creditors
	2,641,528
Creditors from Exchange Transactions	
	Payments received in Advance
	1,257,370
Creditors from Exchange Transactions	
	Staff Bonuses
	1,174,230
Creditors from Exchange Transactions	
	Accrued Leave
	4,525,533
Creditors from Exchange Transactions	
	Sundry Deposits
	199,745
Creditors from Exchange Transactions	
	Other Creditors
	2,205,156
Creditors from Non-exchange Transactions	
	Payments received in Advance
	772,728
Bank Overdraft	
	Bank Overdraft
	5,154,118
Current Portion of Long-term Liabilities	
	Annuity Loans
	2,233,071
	1,997,470
Total Financial Liabilities	30,455,947
	27,439,571

54.2 Fair Value

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practical to estimate that value:

Bank, Cash and Cash Equivalents

The carrying amount approximates fair value because of the short maturity of those instruments.

Non-current Investments

The fair values of some investments are estimated, based on quoted market prices of those or similar investments. Unlisted equity investments are estimated using the discounted cash flow method.

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

2012	2011
R	R

54. FINANCIAL INSTRUMENTS (Continued)

Loan Receivables/Payables

Interest-bearing borrowings and receivables are generally at interest rates in line with those currently available in the market on a floating-rate basis, and, therefore, the fair value of these financial assets and liabilities closely approximates their carrying values. Fixed-interest-rate instruments are fair-valued based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

Trade and Other Receivables/Payables

The fair value of trade and other payables is estimated at the present value of future cash flows.

The management of the municipality is of the opinion that the carrying value of Trade and other Receivables recorded at amortised cost in the Annual Financial Statements approximate their fair values. The fair value of Trade Receivables were determined after considering the standard terms and conditions of agreements entered into between the municipality and other parties as well as the current payment ratio's of the municipality's debtors.

Other Financial Assets and Liabilities

The Fair Value of Other Financial Assets and Financial Liabilities (excluding Derivative Instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

Long-term Liabilities

The fair value of Long-term Liabilities was determined after considering the standard terms and conditions of agreements entered into between the municipality and the relevant financing institutions.

In accordance with IAS 39.09 the Fair Values of Financial Assets and Financial Liabilities, together with the carrying amounts shown in the Statement of Financial Position, are as follows:

Management considers the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements to approximate their fair values on 30 June 2012, as a result of the short-term maturity of these assets and liabilities.

	2012		2011	
	Carrying Amount R	Fair Value R	Carrying Amount R	Fair Value R
FINANCIAL ASSETS				
Held to maturity:				
Current Portion of Investments	6,284,366	6,284,366	8,891,958	8,891,958
	<u>6,284,366</u>	<u>6,284,366</u>	<u>8,891,958</u>	<u>8,891,958</u>
Loans and Receivables				
Long-term Receivables	55,040,401	55,040,401	48,343,607	48,343,607
Trade and Other Receivables from Exchange Transactions	1,164	1,164	30,126	30,126
Trade and Other Receivables from Non-Exchange Transactions	45,463,034	45,463,034	46,304,599	46,304,599
Bank, Cash and Cash Equivalents	1,470,283	1,470,283	1,719,105	1,719,105
Non-current Investments	8,094,980	8,094,980	268,660	268,660
Current Portion of Long-term Receivables	10,940	10,940	7,678	7,678
	<u>-</u>	<u>-</u>	<u>13,438</u>	<u>13,438</u>
Total Financial Assets	<u>61,324,767</u>	<u>61,324,767</u>	<u>57,235,565</u>	<u>57,235,565</u>

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

2012	2011
R	R

54. FINANCIAL INSTRUMENTS (Continued)

	2012		2011	
	Carrying Amount R	Fair Value R	Carrying Amount R	Fair Value R
FINANCIAL LIABILITIES				
Amortised Cost				
Unsecured Bank Facilities:	13,664,627	13,664,627	14,789,121	14,789,121
- Long-term Liabilities	8,510,509	8,510,509	10,769,029	10,769,029
- Bank Overdraft	5,154,118	5,154,118	4,020,092	4,020,092
Trade and Other Payables:	16,791,320	16,791,320	12,650,450	12,650,450
- Consumer Deposits	1,781,959	1,781,959	1,710,596	1,710,596
- Creditors from Exchange Transactions	12,003,563	12,003,563	8,214,306	8,214,306
- Creditors from Non-exchange Transactions	772,728	772,728	728,078	728,078
- Current Portion of Long-term Liabilities	2,233,071	2,233,071	1,997,470	1,997,470
Total Financial Liabilities	30,455,947	30,455,947	27,439,571	27,439,571
Total Financial Instruments	30,868,819	30,868,819	29,795,994	29,795,994
Unrecognised Gain / (Loss)	-	-	-	-

At the reporting date there are no significant concentrations of credit risk for Loans and Receivables at Fair Value. The carrying amount reflected above represents the municipality's maximum exposure to credit risk for such loans and receivables.

There were no reclassifications of financial assets during the financial period.

Assumptions used in determining fair value of Financial Assets and Financial Liabilities

The table below analyses financial instruments carried at fair value at the end of the reporting period, by level of fair-value hierarchy as required by IFRS 7. The different levels are based on the extent to which quoted prices are used in the calculation of the fair value of the financial instruments, and the levels have been defined as follows:

Level 1: Fair values are based on quoted market prices (unadjusted) in active markets for an identical instrument.

Level 2: Fair values are calculated using valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using quoted market prices in active markets for similar instruments, quoted prices for identical or similar instruments in markets that are considered less than active, or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3: Fair values are based on valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data, and the unobservable inputs have a significant effect on the instrument's valuation. Also, this category includes instruments that are valued based on quoted prices for similar instruments, where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

	Level 1 R	Level 2 R	Level 3 R	Total R
FINANCIAL ASSETS				
Financial Instruments at Fair Value				
Non-current Investments	10,940	-	14,379,346	14,390,286
Short-term Portion of Investments	10,940	-	-	10,940
Bank, Cash and Cash Equivalents	-	-	6,284,366	6,284,366
Total Financial Assets	10,940	-	8,094,980	8,094,980
	10,940	-	14,379,346	14,390,286

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

	2012 R	2011 R	
54. FINANCIAL INSTRUMENTS (Continued)			
	Level 1 R	Level 2 R	Level 3 R
FINANCIAL LIABILITIES			Total R
Financial Instruments at Fair Value	-	-	10,292,468
Unsecured Bank Facilities:			10,292,468
- Annuity Loans	-	-	8,510,509
- Consumer Deposits	-	-	1,781,959
Total Financial Liabilities	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>10,292,468</u></u>
Total Financial Instruments	<u><u>10,940</u></u>	<u><u>-</u></u>	<u><u>4,086,878</u></u>
	Level 1 R	Level 2 R	Level 3 R
FINANCIAL ASSETS			Total R
Financial Instruments at Fair Value	7,678	-	9,168,296
Non-current Investments	7,678	-	9,160,618
Short-term Portion of Investments	-	-	-
Bank, Cash and Cash Equivalents	-	-	7,678
Total Financial Assets	<u><u>7,678</u></u>	<u><u>-</u></u>	<u><u>9,168,296</u></u>
	Level 1 R	Level 2 R	Level 3 R
FINANCIAL LIABILITIES			Total R
Financial Instruments at Fair Value	-	-	16,499,717
Unsecured Bank Facilities:			16,499,717
- Long-term Liabilities	-	-	10,769,029
- Bank Overdraft	-	-	4,020,092
- Consumer Deposits	-	-	1,710,596
Total Financial Liabilities	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>16,499,717</u></u>
Total Financial Instruments	<u><u>7,678</u></u>	<u><u>-</u></u>	<u><u>(7,339,099)</u></u>
54.3 Capital Risk Management			<u><u>(7,331,421)</u></u>
The municipality manages its capital to ensure that the municipality will be able to continue as a going concern while delivering sustainable services to consumers through the optimisation of the debt and equity balance. The municipality's overall strategy remains unchanged from 2011.			
The capital structure of the municipality consists of debt, which includes the Long-term Liabilities disclosed in Note 20, Bank, Cash and Cash Equivalents and Equity, comprising Funds, Reserves and Accumulated Surplus as disclosed in Note 5 and the Statement of Changes in Net Assets.			
Gearing Ratio			
In terms of the municipality's five year financial plan, financial benchmarks, year-on-year in respect of the debt-to-equity ratio, is reflected at 95,00%, reducing to 90,00%. This aggressive ratio is as a result of the development challenges faced by the municipality. The rate of borrowing is well below market related rates.			
The gearing ratio at the year-end was as follows:			
Debt	15,897,698	16,786,591	
Bank, Cash and Cash Equivalents	8,094,980	268,660	
Net Debt	<u><u>23,992,678</u></u>	<u><u>17,055,251</u></u>	
Equity	1,179,365,684	1,049,322,116	
Net debt to equity ratio	<u><u>2.03%</u></u>	<u><u>1.63%</u></u>	

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

2012
R

2011
R

54. FINANCIAL INSTRUMENTS (Continued)

Debt is defined as Long- and Short-term Liabilities, as detailed in Note 20.

Equity includes all Funds and Reserves of the municipality, disclosed as Net Assets in the Statement of Financial Performance.

RISK MANAGEMENT OF FINANCIAL ASSETS AND LIABILITIES

54.4 Financial Risk Management Objectives

The Accounting Officer has overall responsibility for the establishment and oversight of the Municipality's risk management framework. The Municipality's risk management policies are established to identify and analyse the risks faced by the Municipality, to set appropriate risk limits and controls and to monitor risks and adherence to limits.

The Directorate: Financial Services monitors and manages the financial risks relating to the operations through internal policies and procedures. These risks include interest rate risk, credit risk and liquidity risk. Risk management policies and systems are reviewed regularly to reflect changes to market conditions and the Municipality's activities, and compliance with policies and procedures is reviewed by the internal auditors on a continuous basis, and annually by external auditors. The municipality does not enter into or trade financial instruments for speculative purposes.

Further quantitative disclosures are included throughout these financial statements.

54.5 Disclosure of significant risks

It is the policy of the municipality to disclose information that enables the user of its financial statements to evaluate the nature and extent of risks arising from financial instruments to which the municipality is exposed on the reporting date.

The Municipality has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk

Risks and exposure are disclosed as follows:

Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Municipality's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Credit Risk

Credit risk is the risk of financial loss to the Municipality if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Municipality's receivables from customers and investment securities.

Liquidity Risk

Liquidity risk is the risk that the Municipality will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Municipality's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Municipality's reputation.

Liquidity risk is managed by ensuring that financial assets are reinvested at maturity at competitive interest rates in relation to cash flow requirements. Liabilities are managed by ensuring that all contractual payments are met on a timely basis and, if required, additional new arrangements are established at competitive rates to ensure that cash flow requirements are met.

A maturity analysis for financial liabilities (where applicable) that shows the remaining undiscounted contractual maturities is disclosed in note 54.8 to the annual financial statements.

54.6 Market Risk

The municipality's activities expose it primarily to the financial risks of changes in interest rates. No formal policy exists to hedge volatilities in the interest rate market.

There has been no change to the municipality's exposure to market risks or the manner in which it manages and measures the risk.

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

2012 R	2011 R
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54. FINANCIAL INSTRUMENTS (Continued)

54.6.1 Interest Rate Risk Management

Interest Rate Risk is defined as the risk that the fair value or future cash flows associated with a financial instrument will fluctuate in amount as a result of market interest changes.

The municipality is exposed to interest rate risk as the municipality borrows funds at both fixed and floating interest rates. The risk is managed by the municipality by maintaining an appropriate mix between fixed and floating rate borrowings, such borrowing being below market related rates.

Interest Rate Sensitivity Analysis

The sensitivity analysis below was determined based on the exposure to interest rates at the reporting date. For variable rate long-term instruments, the analysis is prepared assuming the amount of the instrument outstanding at the reporting date was outstanding for the whole year. A 100 basis point increase or decrease was used, which represents management's assessment of the reasonably possible change in interest rates. The short and long-term financial instruments at year-end with variable interest rates are set out in Note 54.8 below.

Effect of a change in interest rate on interest bearing financial assets and liabilities:

<u>Financial Assets</u>	<u>Classification</u>	<u>2012</u>	<u>2011</u>
<i>External investments:</i>			
Call Deposits	Loans and receivables	8,062,686	207,287
Notice Deposits	Loans and receivables	6,284,366	8,891,958
Bank Balances	Loans and receivables	31,134	60,213
Cash Floats and Advances	Loans and receivables	1,160	1,160
		14,379,346	9,160,618

Interest received

Interest Earned - External Investments		585,044	903,394
Interest rate		4.1%	9.9%

Effect of a change in interest rate on interest earned from external investments:

Effect of change in interest rate	%	3.1%	8.9%
Effect of change in interest rate	Rand value	441,250	811,787
Effect of change in interest rate	%	5.1%	10.9%
Effect of change in interest rate	Rand value	728,837	995,000

Outstanding debtors:

Consumer Debtors	Loans and receivables	45,463,034	46,304,599
Sundry Debtors	Loans and receivables	1,470,283	1,719,105
		46,933,317	48,023,704

Interest received

Interest Earned - Outstanding Debtors		1,339,057	1,018,921
Interest rate		2.9%	2.1%

Effect of a change in interest rate on interest earned from outstanding debtors:

Effect of change in interest rate	%	1.9%	1.1%
Effect of change in interest rate	Rand value	869,724	538,684
Effect of change in interest rate	%	3.9%	3.1%
Effect of change in interest rate	Rand value	1,808,390	1,499,158

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

2012	2011
R	R

54. FINANCIAL INSTRUMENTS (Continued)

<u>Financial Liabilities</u>	<u>Classification</u>	2012	2011
<i>Long-term Liabilities</i>			
Annuity Loans	Amortised cost	8,510,509	10,769,029
Annuity Loans - current portion	Amortised cost	2,233,071	1,997,470
		10,743,580	12,766,499
<i>Interest paid</i>			
Long-term Liabilities		1,278,855	735,428
Interest rate %		11.9%	5.8%
<i>Effect of a change in interest rate on interest paid on long-term liabilities</i>			
Effect of change in interest rate	%	10.9%	4.8%
Effect of change in interest rate	Rand value	1,171,419	607,763
Effect of change in interest rate	%	12.9%	6.8%
Effect of change in interest rate	Rand value	1,386,291	863,093
<i>Bank Overdrafts and Other</i>			
Bank Overdraft	Amortised cost	5,154,118	4,020,092
		5,154,118	4,020,092
<i>Interest paid</i>			
Bank Overdrafts and Other		1,497	10,669
Interest rate %		0.0%	0.3%
<i>Effect of a change in interest rate on interest paid on bank overdrafts and other</i>			
Effect of change in interest rate	%	-1.0%	-0.7%
Effect of change in interest rate	Rand value	-50,044	-29,532
Effect of change in interest rate	%	1.0%	1.3%
Effect of change in interest rate	Rand value	53,038	50,869

54.6.2 Foreign Currency Risk Management

The municipality's activities do not expose it to the financial risks of foreign currency and therefore has no formal policy to hedge volatilities in the interest rate market.

54.7 Credit Risk Management

Credit Risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the municipality. The municipality has a sound credit control and debt collection policy and obtains sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The municipality uses other publicly available financial information and its own trading records to assess its major customers. The municipality's exposure of its counterparties are monitored regularly.

Potential concentrations of credit rate risk consist mainly of variable rate deposit investments, long-term receivables, consumer debtors, other debtors, bank and cash balances.

Investments/ Cash and Cash Equivalents

The municipality limits its counterparty exposures from its short-term investments (financial assets that are neither past due nor impaired) by only dealing with well-established financial institutions short term credit rating of BBB and long-term credit rating of AA- and higher at an International accredited credit rating agency. The Municipality's exposure is continuously monitored and the aggregate value of transactions concluded is spread amongst different types of approved investments and institutions, in accordance with its investment policy. Consequently, the Entity does not consider there to be any significant exposure to credit risk.

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

2012	2011
R	R

54. FINANCIAL INSTRUMENTS (Continued)

Receivables from exchange and non-exchange transactions

Trade and other receivables are amounts owing by consumers, and are presented net of impairment losses. The Municipality has a credit risk policy in place, and the exposure to credit risk is monitored on an ongoing basis. The Municipality is compelled in terms of its constitutional mandate to provide all its residents with basic minimum services, without recourse to an assessment of creditworthiness, subsequently the Municipality has no control over the approval of new customers who acquire properties in the designated metro area and consequently incur rates, water and electricity debts.

The municipality limits this risk exposure in the following ways, in addition to its normal credit control and debt management procedures:

- through the application of section 118(3) of the Municipal Systems Act (MSA), which permits the municipality to refuse connection of services whilst any amount remains outstanding from a previous debtor on the same property.
- a new owner is advised, prior to the issue of a revenue clearance certificate, that any debt remaining from the previous owner will be transferred to the new owner, if the previous owner does not settle the outstanding amount.
- through the consolidation of rates and service accounts, thereby disconnecting services for the non-payment of any of the individual debts, in terms of section 102 of the MSA.
- through the requirement of a deposit for new service connections, serving as guarantee
- through encouraging residents to install water management devices that control water flow to households, and/or prepaid electricity meters.

There were no material changes in the exposure to credit risk and its objectives, policies and processes for managing and measuring the risk during the year under review. The Municipality's maximum exposure to credit risk is represented by the carrying value of each financial asset in the Statement of Financial Position, without taking into account the value of any collateral obtained. The Municipality has no significant concentration of credit risk, with exposure spread over a large number of consumers, and is not concentrated in any particular sector or geographical area.

The Municipality establishes an allowance for impairment that represents its estimate of anticipated losses in respect of trade and other receivables.

Payment of accounts of consumer debtors, who are unable to pay, are renegotiated as an ongoing customer relationship in response to an adverse change in the circumstances of the customer.

Long-term Receivables and Other Debtors are individually evaluated annually at reporting date for impairment or discounting. A report on the various categories of debtors is drafted to substantiate such evaluation and subsequent impairment / discounting, where applicable.

Except as detailed in the following table, the carrying amount of financial assets recorded in the Annual Financial Statements, which is net of impairment losses, represents the municipality's maximum exposure to credit risk without taking account of the value of any collateral obtained:

The maximum credit and interest risk exposure in respect of the relevant financial instruments is as follows:

Long-term Receivables	1,164	43,564
Consumer Debtors	75,106,027	57,314,812
Other Debtors	1,470,283	1,719,105
Bank, Cash and Cash Equivalents	14,379,346	9,160,618

Maximum Credit and Interest Risk Exposure	<u>90,956,820</u>	<u>68,238,100</u>
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The major concentrations of credit risk that arise from the Municipality's receivables in relation to customer classification are as follows:

Consumer debtors:		
Household	59%	59%
Industrial/Commercial	12%	12%
National and Provincial Government	15%	15%
Other consumer debtors	5%	5%
Other debtors:		
Other	9%	9%
	<u>100%</u>	<u>100%</u>

At 30 June 2012 the Municipality had 1,020 customers (2011: 1,410 customers) that owed the Municipality more than R10 000 each and accounted for approximately 26,47% (2011: 45,78%) of all receivables owing. There were 25 customers (2011: 23 customers) with balances greater than R100 000 accounting for just over 8,58% (2011: 21,72%) of the total amounts receivable.

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

2012
R

2011
R

54. FINANCIAL INSTRUMENTS (Continued)

The credit quality of the consumer Debtors, Rate Assessment Debtors and other receivables and Long-term Receivables have been determined by using their respective categories and was determined as follows:

	Household R	Business R	Government R	Indigents R	Total R
Consumer Debtors					
Very Good	2,110,418	1,105,516	1,598,761	-	4,814,695
Good	31,481,166	1,533,750	-	-	33,014,915
Average	6,887,173	3,087,863	-	-	9,975,036
Poor	-	-	-	-	-
Bad	256,448	50,383	-	-	306,831
Very Bad	-	-	-	16,749,586	16,749,586
	40,735,205	5,777,511	1,598,761	16,749,586	64,861,063
Rate Assessment and Other Receivables					
Very Good	-	-	-	-	-
Good	1,319,935	75,176	-	-	1,395,111
Average	10,162	-	-	-	10,162
Poor	-	-	-	-	-
Bad	430	-	-	-	430
Very Bad	-	-	-	965,079	965,079
	1,330,527	75,176	-	965,079	2,370,782
Long-term Receivables					
Very Good	-	1,164	-	-	1,164
Good	-	-	-	-	-
Average	-	-	-	-	-
Poor	-	-	-	-	-
Bad	-	-	-	-	-
Very Bad	-	-	-	-	-
	-	1,164	-	-	1,164

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

54. FINANCIAL INSTRUMENTS (Continued)

54.8 Liquidity Risk Management

Ultimate responsibility for liquidity risk management rests with the Council, which has built an appropriate liquidity risk management framework for the management of the municipality's short, medium and long-term funding and liquidity management requirements. The municipality manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Included in Note 49 is a listing of additional undrawn facilities that the municipality has at its disposal to further reduce liquidity risk (cash).

Liquidity and Interest Risk Tables

The municipality ensures that it has sufficient cash on demand or access to facilities to meet expected operational expenses through the use of cash flow forecasts. A credit line overdraft facility of R1 million is available and is unsecured. Interest payable is linked to the prime interest rate.

The following tables detail the municipality's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the municipality can be required to pay. The table includes both interest and principal cash flows.

Description	Note ref in AFS	Average effective Interest Rate	Total	6 Months or less	6 - 12 Months	1 - 2 Years	2 - 5 Years	More than 5 Years
				#	%	R	R	R
30 June 2012								
Non-interest Bearing			10,032,717	10,032,717	-	-	-	-
- Consumer Deposits	14	0.00%	1,781,959	1,781,959	-	-	-	-
- Creditors from Exchange Transactions	16	0.00%	7,478,030	7,478,030	-	-	-	-
- Creditors from Non-exchange Transactions	17	0.00%	772,728	772,728	-	-	-	-
Variable Interest Rate Instruments			8,745,836	1,166,112	1,166,112	2,332,223	4,081,390	-
- ABSA Bank Ltd	20	9.70%	8,745,836	1,166,112	1,166,112	2,332,223	4,081,390	-
Fixed Interest Rate Instruments			4,639,147	486,124	486,124	972,248	2,694,650	-
- DBSA (1150 563)	20	10.00%	888,377	111,047	111,047	222,094	444,188	-
- DBSA (1150 566)	20	12.00%	3,750,770	375,077	375,077	750,154	2,250,462	-
			23,417,700	11,684,952	1,652,236	3,304,471	6,776,041	-

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

54. FINANCIAL INSTRUMENTS (Continued)

Description	Note ref in AFS	Average effective Interest Rate	Total	6 Months	6 - 12	1 - 2	2 - 5	More than
				or less	Months	Years	Years	5 Years
	#	%	R	R	R	R		R
30 June 2011								
Non-interest Bearing								
- Consumer Deposits	14	0.00%	6,480,431	6,480,431	-	-	-	-
- Creditors from Exchange Transactions	16	0.00%	1,710,596	1,710,596	-	-	-	-
- Creditors from Non-exchange Transactions	17	0.00%	4,041,757	4,041,757	-	-	-	-
			728,078	728,078	-	-	-	-
Variable Interest Rate Instruments								
- ABSA Bank Ltd	20	9.70%	11,078,059	1,166,112	1,166,112	2,332,223	6,413,613	-
			11,078,059	1,166,112	1,166,112	2,332,223	6,413,613	-
Fixed Interest Rate Instruments								
- DBSA (1150 563)	20	10.00%	5,611,395	486,124	486,124	972,248	2,916,745	750,154
- DBSA (1150 566)	20	12.00%	1,110,471	111,047	111,047	222,094	666,283	-
			4,500,924	375,077	375,077	750,154	2,250,462	750,154
			23,169,886	8,132,667	1,652,236	3,304,471	9,330,358	750,154
				6	6	12	36	

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

54. FINANCIAL INSTRUMENTS (Continued)

The following table details the municipality's expected maturity for its non-derivative financial assets. The tables below have been drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets except where the municipality anticipates that the cash flow will occur in a different period.

Description	Note ref in AFS	Average effective Interest Rate	Total	6 Months	6 - 12	1 - 2	2 - 5	More than
				or less	Months	Years	Years	5 Years
30 June 2012								
Non-interest Bearing								
- Long-term Receivables	13	0.00%	46,965,616	46,964,452	-	-	-	1,164
- Trade Receivables from Exchange Transactions	3	0.00%	1,164	-	-	-	-	1,164
- Trade Receivables from Non-exchange Transactions	4	0.00%	39,144,555	39,144,555	-	-	-	-
- Cash and Cash Equivalents	5	0.00%	7,788,763	7,788,763	-	-	-	-
				31,134	31,134	-	-	-
Variable Interest Rate Instruments								
- Call Deposits	5		8,062,686	8,062,686	-	-	-	-
			8,062,686	8,062,686	-	-	-	-
Fixed Interest Rate Instruments								
- Notice Deposits	5		6,284,366	6,284,366	-	-	-	-
			6,284,366	6,284,366	-	-	-	-
			61,312,668	61,311,504	-	-	-	1,164
30 June 2011								
Non-interest Bearing								
- Long-term Receivables	13	0.00%	48,127,482	48,083,917	-	-	-	43,564
- Trade Receivables from Exchange Transactions	3	0.00%	43,564	-	-	-	-	43,564
- Trade Receivables from Non-exchange Transactions	4	0.00%	40,831,259	40,831,259	-	-	-	-
- Cash and Cash Equivalents	5	0.00%	7,192,445	7,192,445	-	-	-	-
			60,213	60,213	-	-	-	-
Variable Interest Rate Instruments								
- Call Deposits	5		207,287	207,287	-	-	-	-
			207,287	207,287	-	-	-	-
Fixed Interest Rate Instruments								
- Notice Deposits	5		8,891,958	8,891,958	-	-	-	-
			8,891,958	8,891,958	-	-	-	-
			57,226,727	57,183,162	-	-	-	43,564

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

54. FINANCIAL INSTRUMENTS (Continued)

The municipality has access to financing facilities, the total unused amount which is R1 million (2011: R1 million), at the reporting date. The municipality expects to meet its other obligations from operating cash flows and proceeds of maturing financial assets. The municipality expects to maintain current debt to equity ratio. This will be achieved through increased service tariff charges and the increased use of unsecured bank loan facilities.

54.9 Other Price Risks

The municipality is not exposed to equity price risks arising from equity investments as the municipality does not trade these investments.

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

2012
R

2011
R

55. MULTI-EMPLOYER RETIREMENT BENEFIT INFORMATION

The municipality makes provision for post-retirement benefits to eligible councillors and employees, who belong to different pension schemes.

All councillors belong to the Pension Fund for Municipal Councillors

Employees belong to a variety of approved Pension and Provident Funds as described below.

These funds are governed by the Pension Funds Act and include both defined benefit and defined contribution schemes.

All of these afore-mentioned funds are multi-employer plans and are subject to either a tri-annual, bi-annual or annual actuarial valuation, details which are provided below.

Sufficient information is not available to use defined benefit accounting for the pension and retirement funds, due to the following reasons:-

- (i) The assets of each fund are held in one portfolio and are not notionally allocated to each of the participating employers.
- (ii) One set of financial statements are compiled for each fund and financial statements are not drafted for each participating employer.
- (iii) The same rate of contribution applies to all participating employers and no regard is paid to differences in the membership distribution of the participating employers.

It is therefore seen that each fund operates as a single entity and is not divided into sub-funds for each participating employer.

The only obligation of the municipality with respect to the retirement benefit plans is to make the specified contributions. Where councillors / employees leave the plans prior to full vesting of the contributions, the contributions payable by the municipality are reduced by the amount of forfeited contributions.

The total expense recognised in the Statement of Financial Performance of R5 310 466 (2011: R5 333 360) represents contributions payable to these plans by the municipality at rates specified in the rules of the plans. These contributions have been expensed.

The Retirement Funds have been valued by making use of the Discounted Cash Flow method of valuation.

DEFINED CONTRIBUTION SCHEMES

Municipal Councillors Pension Fund:

The scheme is subject to a tri-annual actuarial valuation. The last statutory valuation was performed as at 30 June 2010.

The statutory valuation performed as at 30 June 2010 revealed that the assets of the fund amounted to R1 483, 786 381 (30 June 2009: R1 341, 935 205) million. The contribution rate paid by the members (13,75%) and the municipalities (15,00%) is sufficient to fund the benefits accruing from the fund in the future.

Cape Joint Pension Fund:

The scheme is subject to an annual actuarial valuation. The last statutory valuation was performed as at 30 June 2011.

The statutory valuation performed as at 30 June 2011 revealed that the investment reserve of the fund amounted to R63,977 (30 June 2010: R190,464) million, with a funding level of 98,1% (30 June 2010: 100,0%). The contribution rate paid by the members (9,00%) and the municipalities (18,00%) is sufficient to fund the benefits accruing from the fund in the future.

Cape Joint Retirement Fund:

The scheme is subject to an annual actuarial valuation. The last statutory valuation was performed as at 30 June 2011.

The statutory valuation performed as at 30 June 2011 revealed that the assets of the fund amounted to R9 930,837 (30 June 2010: R7 740,205) million, with funding levels of 100,3% and 116,9% (30 June 2010: 99,9% and 100,3%) for the Share Account and the Pensions Account respectively. The contribution rate paid by the members (7,50%) and the municipalities (19,50%) is sufficient to fund the benefits accruing from the fund in the future.

SALA Pension Fund:

The scheme is subject to an annual actuarial valuation. The last statutory valuation was performed as at 30 June 2010.

The statutory valuation performed as at 30 June 2010 revealed that the assets of the fund amounted to R7 110,3 (30 June 2009: R6 303,7) million, with funding levels of 96,0% (30 June 2009: 96,0%). The contribution rate paid by the members (8,6%) and Council (20,78%) is sufficient to fund the benefits accruing from the fund in the future.

Refer to Note 21 for the Employee Related Costs.

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

2012
R

2011
R

56. RELATED PARTY TRANSACTIONS

All Related Party Transactions are conducted at arm's length, unless stated otherwise.

56.1 Interest of Related Parties

Councillors and/or management of the municipality have relationships with businesses as indicated below:

Name of Related Person	Designation	Description of Related Party Relationship
Jood J	Councillor	Buildsec
		O R Begrifnis Diens
		De Aar Construction
Freddie MM	Councillor	Britstown Small Farmers
Manuel MF	Chief Financial Officer	Qala Kancini Consultants
Visser I	Municipal Manager	Siyathemba Social Development Projects
Appies CP	Manager: Housing	KCA Trading Enterprise
Tshawe PB	Manager: Electro Technical Services	Phetha Electrical and Trade
		Intelimax
Alexander JRM	Manager: Corporate Services	Lezmin 2649
		Emthanjeni Fertilizer and Garden Service
Jack M	Supply Chain Accountant	Jack and Son's Transport

56.2 Services rendered to Related Parties

During the year the municipality rendered services to the following related parties that are related to the municipality as indicated:

	Rates Charges R	Service Charges R	Sundry Charges R
For the Year ended 30 June 2012			
Councillors	22,999	58,168	2,775
Municipal Manager and Section 57 Personnel	18,225	34,789	8,017
Total Services	41,225	92,957	10,792
For the Year ended 30 June 2011			
Councillors	14,261	54,462	132
Municipal Manager and Section 57 Personnel	17,923	27,270	7,336
Total Services	32,183	81,732	7,467

The services rendered to Related Parties are charged at approved tariffs that were advertised to the public. No Bad Debts were written off or recognised in respect of amounts owed by Related Parties.

The amounts outstanding are unsecured and will be settled in cash. Consumer Deposits were received from Councillors, the Municipal Manager and Section 57 Personnel. No expense has been recognised in the period for bad or doubtful debts in respect of the amounts owed by related parties.

56.3 Compensation of Related Parties

Compensation of Key Management Personnel and Councillors is set out in Notes 34 and 35 respectively, to the Annual Financial Statements.

56.4 Purchases from Related Parties

The municipality did not buy goods from any companies which can be considered to be Related Parties.

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

	2012 R	2011 R
57. CONTINGENT LIABILITIES		

57.1 Court Proceedings:	2,224,373	948,036
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(i) Telkom:

The Municipality has been summonsed for an amount of R35 568. Should the Municipality loose this matter in court, the total amount to be paid will amount to the R37 607, including interest at 15.5% per month, calculated from 2012/02/16.

37,607

The legal costs applicable is estimated to be R20 000.

(ii) Cape Joint Pension Fund:

2,186,766

During the actuarial valuation performed on the fund, it was found that the interest on the total monies of the Fund was lower than 5.50% for the year ended June 2009.

This resulted in Rule 17(5) being enforced by the Fund, resulting in the liability of R2 186 766 for the Municipality, as well as any additional interest to be charged from February 2010.

The Municipality however opted to consent to the extension of the prescription period to afford the Fund an opportunity to find an amicable solution.

The summons was withdrawn by the Fund, but the Fund reserved the right to claim the deficit from the Municipality.

57.2 Landfill sites:

(i) Landfill sites:

The Municipality has three active landfill sites. It has been identified that the landfill sites situated in Britstown and Hanover are not licensed as required by the National Environmental Management: Waste Act, 2008 (Act No. 59 of 2008).

In accordance with section 68(1) of the National Environmental Management: Waste Act, 2008 (Act No. 59 of 2008), a person convicted of an offence referred to in section 67(1)(a), (g) or (h) is liable to a fine not exceeding R10 000 000 or to imprisonment for a period not exceeding 10 years, or to both such fine and such imprisonment, in addition to any other penalty or award that may be imposed or made.

The necessary steps have been taken by the Municipality to obtain the required permits and licenses and the process has been started.

58. CONTINGENT ASSETS

The municipality was not engaged in any transaction or event during the year under review involving Contingent Assets.

59. IN-KIND DONATIONS AND ASSISTANCE

The municipality did not receive any In-kind Donations and Assistance during the year under review.

60. PRIVATE PUBLIC PARTNERSHIPS

The municipality was not a party to any Private Public Partnerships during the financial year 2011/2012.

61. EVENTS AFTER THE REPORTING DATE

No events having financial implications requiring disclosure occurred subsequent to 30 June 2012.

62. COMPARATIVE FIGURES

The comparative figures were restated as a result of the effect of Prior Period Errors (Note 45).

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

	2012 R	2011 R
63. RECONCILIATION OF BUDGET SURPLUS/(DEFICIT) WITH THE SURPLUS/(DEFICIT) IN THE STATEMENT OF FINANCIAL PERFORMANCE		
Net surplus/(deficit) per the statement of financial performance	(56,870,146)	(36,060,359)
Revenue from Non-exchange Transactions		
Property Rates	983,733	3,930,415
Property Rates - Penalties imposed and collection charges	(127,961)	(85,921)
Fines	1,821,069	286,534
Licences and Permits	(12,556)	(53,745)
Government Grants and Subsidies	4,563,588	2,652,231
Revenue from Exchange Transactions		
Service Charges	(5,022,401)	5,928,337
Rental of Facilities and Equipment	(114,977)	(135,252)
Interest Earned - External investments	101,095	(256,094)
Interest Earned - Outstanding debtors	(409,736)	(176,999)
Dividends Received	-	(540)
Other Income	(3,205,813)	(19,474,805)
Other Gains on Continued Operations	(3,262)	(467)
Gains on Disposal of Property, Plant and Equipment	-	(11,791)
Expenditure		
Employee Related Costs	(1,313,924)	8,174,586
Remuneration of Councillors	81,377	(4,930)
Collection Costs	(177,385)	(167,344)
Depreciation	67,179,880	52,493,529
Impairment Losses	9,470,510	(5,547,285)
Repairs and Maintenance	(7,618,550)	(5,665,955)
Interest Paid	(222,623)	(880,620)
Bulk Purchases	77,335	(1,601,334)
Contracted Services	417,725	1,801,231
Grants and Subsidies Paid	(13,530,128)	(19,620,506)
General Expenses	(2,372,439)	(1,068,284)
Loss on Disposal of Property, Plant and Equipment	50,214	-
Loss on Sale of Land	288,719	382,404
Inventory Written-off	60,870	605,257
Net surplus/deficit per approved budget	(5,905,787)	(14,557,708)

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

64. ACTUAL VERSUS BUDGET (REVENUE AND EXPENDITURE)

ACTUAL VERSUS BUDGET (REVENUE AND EXPENDITURE) FOR THE YEAR ENDED 30 JUNE 2012

Description	2011/12 Actual	2011/12 Budget	2011/12 Variance	2011/12 Variance	Explanation of Significant Variances greater than 10% versus Budget
REVENUE	R	R	R	%	
Property Rates	14,337,195	15,320,928	(983,733)	(6.86)	No material fluctuations.
Property Rates - Penalties imposed and collection charges	223,361	95,400	127,961	57.29	Debtor recovery slower than planned, resulting in the interest increasing.
Fines	6,703,169	8,524,238	(1,821,069)	(27.17)	Fines income from TVS overbudgeted for.
Licences and Permits	1,107,196	1,094,641	12,556	1.13	No material fluctuations.
Government Grants and Subsidies	43,887,412	48,451,000	(4,563,588)	(10.40)	MIG projects not fully finalised, resulting in less conditions being met.
Service Charges	76,226,722	71,204,321	5,022,401	6.59	No material fluctuations.
Rental of Facilities and Equipment	587,101	472,123	114,977	19.58	Encroachment was over estimated, in contradiction with the 2011 amounts.
Interest Earned - External investments	585,044	686,138	(101,095)	(17.28)	Cash balances did not maintain the expected levels.
Interest Earned - Outstanding debtors	1,115,696	705,960	409,736	36.72	Debtor recovery slower than planned, resulting in the interest increasing.
Other Income	5,547,365	2,341,551	3,205,813	57.79	Provision for impairment on debtors resulted in income. VAT on MIG projects (own income) was not sufficiently budgeted for.
Other Gains on Continued Operations	3,262	-	3,262	100.00	Fair value adjustment of OVK shares were not budgeted for.
Gains on Disposal of Property, Plant and Equipment		5,300	(5,300)	(100.00)	Gains from auction was budgeted for, but auction was not as successfull.
Total Revenue	150,323,523	148,901,601	1,421,922	0.95	
EXPENDITURE					
Employee Related Costs	(46,227,048)	(47,540,973)	1,313,924	(2.84)	No material fluctuations.
Remuneration of Councillors	(3,421,246)	(3,339,869)	(81,377)	2.38	No material fluctuations.
Collection Costs	-	(177,385)	177,385	(100.00)	Collection costs not incurred, as was the case in 2011.
Depreciation	(68,677,534)	(1,470,545)	(67,206,988)	97.86	Due to backlog depreciation, as was the case in 2011.
Impairment Losses	(16,971,219)	(7,500,709)	(9,470,510)	(100.00)	Due to decrease in provision for impairment on debtors balance (resulting in income being recognised).
Repairs and Maintenance	(8,679,225)	(16,297,775)	7,618,550	(87.78)	Less repairs than budgeted for.
Interest Paid	(1,284,487)	(1,507,110)	222,623	(17.33)	No new loans and default payments.
Bulk Purchases	(34,105,602)	(34,028,267)	(77,335)	0.23	No material fluctuations.
Contracted Services	(8,689,470)	(8,271,745)	(417,725)	4.81	No material fluctuations.
Grants and Subsidies Paid	(788,172)	(14,318,300)	13,530,128	(1,716.65)	Difference relates to incorrect classification.
General Expenses	(17,982,271)	(20,354,711)	2,372,439	(13.19)	Less general expenses than budgeted for.
Loss on Disposal of Property, Plant and Equipment	(44,914)	-	(44,914)	100.00	Gains from auction was budgeted for, but auction was not as successfull.
Loss on Sale of Land	(288,719)	-	(288,719)	100.00	Sale of investment property was not budgeted for.
Inventory Written-off	(60,870)	-	(60,870)	100.00	Write-off of inventory was not budgeted for.
Total Expenditure	(207,220,777)	(154,807,388)	(52,413,389)	33.86	
NET SURPLUS / (DEFICIT) FOR THE YEAR	(56,897,254)	(5,905,787)	(50,991,467)	(863.42)	

EMTHANJENI LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

64. ACTUAL VERSUS BUDGET (REVENUE AND EXPENDITURE) (Continued)

ACTUAL VERSUS BUDGET (REVENUE AND EXPENDITURE) FOR THE YEAR ENDED 30 JUNE 2011

Description	2010/11	2010/11	2010/11	2010/11	Explanation of Significant Variances greater than 10% versus Budget
	Actual	Budget	Variance	Variance	
	R	R	R	%	
REVENUE					
Property Rates	12,192,849	16,123,264	(3,930,415)	(32.24)	
Property Rates - Penalties imposed and collection charges	175,921	90,000	85,921	48.84	The increase in the outstanding debt interest relates to the high outstanding debt due to non-payment.
Fines	8,698,596	8,985,130	(286,534)	(3.29)	No material fluctuations.
Licences and Permits	1,086,425	1,032,680	53,745	4.95	No material fluctuations.
Government Grants and Subsidies	41,477,598	44,129,829	(2,652,231)	(6.39)	No material fluctuations.
Service Charges	66,005,131	71,933,468	(5,928,337)	(8.98)	No material fluctuations.
Rental of Facilities and Equipment	565,603	430,351	135,252	23.91	Encroachment was under estimated.
Interest Earned - External investments	903,394	647,300	256,094	28.35	During the year Emthanjeni invest in call accounts for money received but that was not committed within 30 days.
Interest Earned - Outstanding debtors	842,999	666,000	176,999	21.00	The increase in the outstanding debt interest relates to the high outstanding debt due to non-payment.
Dividends Received	540	-	540	100.00	Investment was unknown in the previous years.
Other Income	20,197,863	723,058	19,474,805	96.42	Prepaid sales increase because on conversions from conventional meters to prepaid.
Other Gains on Continued Operations	467	-	467	100.00	The VAT on MIG projects that has been recorded as income.
Gains on Disposal of Property, Plant and Equipment	16,791	5,000	11,791	70.22	Investment was unknown in the previous years.
Total Revenue	152,164,178	144,766,080	7,398,098	5.11	Gains from auction was budgeted for, but auction was not as successfull.
EXPENDITURE					
Employee Related Costs	(51,491,497)	(43,316,911)	(8,174,586)	15.88	Interest on the Post Retirement Benefits.
Remuneration of Councillors	(3,223,142)	(3,228,072)	4,930	(0.15)	No material fluctuations.
Collection Costs	-	(167,344)	167,344	(100.00)	No collection services were contracted.
Depreciation	(66,837,113)	(14,343,584)	(52,493,529)	78.54	The over commitment was mainly due to the measurement of PPE.
Impairment Losses	(1,765,894)	(7,313,179)	5,547,285	(314.13)	Increase due to non-payment of debtors accounts. See also the Interest on Outstanding Debtors.
Repairs and Maintenance	(9,714,320)	(15,380,275)	5,665,955	(58.33)	Part of the Ward Projects lead to the extension of the assets and we also receive a lot of rain that stifled the maintenance of the buildings. Big amounts has been capitalized due to the extension of the useful lives of assets.
Interest Paid	(754,856)	(1,635,476)	880,620	(116.66)	DBSA loan repaid during the year.
Bulk Purchases	(26,379,586)	(27,980,920)	1,601,334	(6.07)	No material fluctuations.
Contracted Services	(8,970,331)	(7,169,100)	(1,801,231)	20.08	TVS commission was under estimated, more revenue was received during the financial year.
Grants and Subsidies Paid	(567,870)	(20,188,376)	19,620,506	(3,455.11)	Difference relates to incorrect classification.
General Expenses	(17,532,266)	(18,600,550)	1,068,284	(6.09)	No material fluctuations.
Inventory Written-off	(605,257)	-	(605,257)	100.00	Write-off of inventory was not budgeted for.
Loss on disposal of Property, Plant and Equipment	(382,404)	-	(382,404)	100.00	Loss on transfer of property was not budgeted for.
Total Expenditure	(188,224,536)	(159,323,787)	(28,900,749)	18.14	
NET SURPLUS / (DEFICIT) FOR THE YEAR	(36,060,359)	(14,557,707)	(21,502,651)	(147.71)	

APPENDIX A
EMTHANJENI LOCAL MUNICIPALITY
SCHEDULE OF EXTERNAL LOANS AS AT 30 JUNE 2012

Details	Original Loan Amount	Interest Rate	Loan Number	Redeemable	Balance at 30 June 2011	Received during the Period	Redeemed/ Written Off during Period	Balance at 30 June 2012
ANNUITY LOANS	R				R	R	R	R
DBSA	1,809,999	10.00%	1150 563	2016/03/31	878,449	-	143,438	735,011
DBSA	4,981,693	12.00%	1150 566	2017/03/31	3,236,821	-	396,453	2,840,368
ABSA	9,000,000	9.00%	30 3336 7955	2016/03/31	8,651,230		1,483,029	7,168,201
Total Annuity Loans	15,791,692				12,766,500	-	2,022,920	10,743,580
CAPITAL LEASE LIABILITIES								
Konica Minolta	116,308	6.12%	20161150001	05/04/2006	51,120	-	27,517	23,604
Total Capital Lease Liabilities	116,308				51,120	-	27,517	23,604
TOTAL EXTERNAL LOANS	15,908,000				12,817,620	-	2,050,437	10,767,184

ANNUITY LOANS:

ABSA loan (30 3336 7955):

Structured secured 5 year loan for the purchase of vehicles. Original loan capital of R9 000 000 is repayable monthly in fixed instalments of capital and fixed rate interest of R194 352.

DBSA loan (1150 563):

Structured unsecured 20 year loan for the funding of the De Aar/Nonzwakazi Bulk & Internal Electrical Supply. Original loan capital of R1 809 000 is repayable semi-annually in fixed instalments of capital and fixed rate interest of R111 047.

DBSA loan (1150 566):

Structured unsecured 20 year loan for the funding of the De Aar/Nonzwakazi Bulk & Internal Electrical Supply. Original loan capital of R4 981 693 is repayable semi-annually in fixed instalments of capital and fixed rate interest of R375 077.

APPENDIX A
EMTHANJENI LOCAL MUNICIPALITY
SCHEDULE OF EXTERNAL LOANS AS AT 30 JUNE 2012

CAPITAL LEASE LIABILITIES:

Konica Minolta (20161150001):

Lease liability relates to IT Equipment with lease terms of 5 (2010: 5) years. The effective interest rate on finance leases is between 10,00% and 11,00% (2010: 10,00 to 11,00%). The capitalised lease liability is secured by the equipment leased over the lease term.

Note: The rates of interest payable on the above structured loans and finance leases are based on certain underlying assumptions relating to the lenders' statutory costs and the allowability of deductions by the lenders for income tax purposes in connection with these loans. In the event of changes to, or interpretation of, the Income Tax Act or any other relevant legislation which impact on the loan structure costs, the lenders have the right to increase or decrease the future rates of interest payable on the loans over their remaining lives, in order to absorb the increase or decrease in costs.

APPENDIX B
EMTHANJENI LOCAL MUNICIPALITY
ANALYSIS OF PROPERTY, PLANT AND EQUIPMENT AS AT 30 JUNE 2012

Description	Cost / Revaluation						Accumulated Depreciation / Impairment					Carrying Value
	Opening Balance	Additions	Under Construction	Transfers	Disposals	Closing Balance	Opening Balance	Additions	Transfers	Disposals	Closing Balance	
Land and Buildings	R	R	R	R	R	R	R	R	R	R	R	R
Buildings	257,186,928	59,945	-	-	-	257,246,873	97,252,536	11,163,324	-	-	108,415,860	148,831,013
Land	24,118,435	-	-	-	-	24,118,435	-	-	-	-	-	24,118,435
	281,305,363	59,945	-	-	-	281,365,308	97,252,536	11,163,324	-	-	108,415,860	172,949,448
Infrastructure												
<i>Electricity:</i>												
Electricity Network	216,822,899	171,557	192,930	-	-	217,187,387	114,299,109	8,565,958	-	-	122,865,068	94,322,319
<i>Roads and Transport:</i>												
Roads Network	810,619,437	-	2,223,537	-	-	812,842,974	435,338,777	19,076,079	-	-	454,414,857	358,428,117
<i>Storm Water:</i>												
Storm Water Network	391,957,181	-	8,816,514	-	-	400,773,696	215,576,450	7,837,944	-	-	223,414,394	177,359,302
<i>Solid Waste:</i>												
Landfill Site	2,777,242	-	-	-	-	2,777,242	-	92,575	-	-	92,575	2,684,667
<i>Sewerage:</i>												
Sanitation	102,748,700	100,239	183,100	-	-	103,032,039	52,643,178	3,070,006	-	-	55,713,184	47,318,855
<i>Water:</i>												
Water Network	308,444,208	38,916	1,836,026	-	-	310,319,149	143,619,844	14,354,419	-	-	157,974,264	152,344,886
	1,833,369,667	310,713	13,252,107	-	-	1,846,932,487	961,477,358	52,996,982	-	-	1,014,474,340	832,458,146
Other Assets												
<i>Computer Equipment</i>												
Computer Hardware Including Operating Systems	2,265,985	197,378	-	-	(158,387)	2,304,976	759,945	624,004	-	(137,048)	1,246,901	1,058,074
<i>Transport Assets</i>												
Bicycles	2,400	-	-	-	-	2,400	346	288	-	-	634	1,766
Motor Vehicles	2,607,652	595,834	-	-	-	3,203,486	280,203	478,827	-	-	759,030	2,444,456
Trailers And Accessories	222,655	77,035	-	-	-	299,690	38,065	28,041	-	-	66,107	233,583
Trucks	5,049,407	10,899	-	-	-	5,060,306	364,757	484,804	-	-	849,560	4,210,745
<i>Furniture And Office Equipment:</i>												
Advertising Boards	8,149	3,332,999	-	-	-	3,341,148	2,470	224,440	-	-	226,910	3,114,237
Air Conditioners Individual Fixed And Movable	166,309	166,500	-	-	(4,100)	328,709	65,774	56,761	-	(3,229)	119,306	209,403
Domestic And Hostel Furniture	59,027	-	-	-	-	59,027	15,918	7,243	-	-	23,161	35,866
Fixtures & Fittings	498,923	-	-	-	-	498,923	131,631	90,627	-	-	222,258	276,666
Office Equipment Including Fax Machines	905,623	9,368	-	-	(4,139)	910,853	280,468	156,474	-	(3,725)	433,217	477,636
Office Furniture	3,172,905	199,354	-	-	(20,706)	3,351,554	964,313	589,964	-	(12,535)	1,541,742	1,809,812
<i>Machinery And Equipment:</i>												
Audiovisual Equipment	274,470	26,250	-	-	(16,672)	284,048	72,486	49,834	-	(7,503)	114,818	169,230
Domestic Equipment (Non Kitchen Appliances)	107,497	14,679	-	-	(940)	121,236	38,164	30,377	-	(741)	67,800	53,436
Electric Wire And Power Distribution Equipment (Compressors / Generators)	115,796	11,393	-	-	-	127,189	33,890	23,343	-	-	57,232	69,956
Fire Arms	29,440	-	-	-	-	29,440	7,949	5,299	-	-	13,248	16,192
Fire Fighting Equipment	73,065	-	-	-	(2,850)	70,215	19,301	21,886	-	(1,773)	39,414	30,801
Gardening Equipment	105,548	40,047	-	-	(17,500)	128,095	30,344	30,429	-	(12,600)	48,173	79,922
Kitchen Appliances	140,405	13,663	-	-	-	154,068	47,033	25,544	-	-	72,578	81,490
Laboratory Equipment Agricultural	9,300	-	-	-	-	9,300	1,850	1,674	-	-	3,524	5,777
Laboratory Equipment Medical Testing	5,993	-	-	-	-	5,993	2,485	1,138	-	-	3,623	2,370
Machines For Textile Production	1,393	-	-	-	-	1,393	376	125	-	-	501	892
Medical And Allied Equipment	31,233	-	-	-	-	31,233	6,395	5,622	-	-	12,017	19,216
Meters Prepaid	34,819	-	-	-	-	34,819	7,415	9,416	-	-	16,831	17,988
Music Instruments	130,000	-	-	-	-	130,000	35,100	11,700	-	-	46,800	83,200
Pumps, Plumbing, Purification, Sanitation And Allied Equipment	611,768	2,730	-	-	-	614,498	178,896	109,064	-	-	287,960	326,538
Radio Equipment	50,889	2,279	-	-	-	53,168	15,227	9,804	-	-	25,031	28,137

APPENDIX B
EMTHANJENI LOCAL MUNICIPALITY
ANALYSIS OF PROPERTY, PLANT AND EQUIPMENT AS AT 30 JUNE 2012

Description	Cost / Revaluation						Accumulated Depreciation / Impairment					Carrying Value
	Opening Balance	Additions	Under Construction	Transfers	Disposals	Closing Balance	Opening Balance	Additions	Transfers	Disposals	Closing Balance	
Road Construction And Maintenance Equipment	R	R	R	R	R	R	R	R	R	R	R	R
Security & Access Control Units	5,133,907	-	-	-	-	5,133,907	435,579	461,601	-	-	897,180	4,236,726
Telecommunication Equipment	87,600	41,579	-	-	-	129,179	3,942	9,963	-	-	13,905	115,274
Workshop Equipment And Loose Tools Fixed	510,615	-	-	-	-	510,615	140,827	153,185	-	-	294,012	216,603
Workshop Equipment And Loose Tools Movable	96,152	-	-	-	-	96,152	27,189	16,935	-	-	44,124	52,028
	947,639	152,240	-	-	-	1,099,879	281,001	275,045	-	-	556,046	543,833
	23,456,566	4,894,226	-	-	(225,295)	28,125,497	4,289,339	3,993,457	-	(179,154)	8,103,643	20,021,855
Total	2,138,131,596	5,264,885	13,252,107	-	(225,295)	2,156,423,292	1,063,019,233	68,153,763	-	(179,154)	1,130,993,843	1,025,429,449

EMTHANJENI LOCAL MUNICIPALITY
ANALYSIS OF INVESTMENT PROPERTIES AS AT 30 JUNE 2012

Description	Cost / Revaluation						Accumulated Depreciation / Impairment					Carrying Value
	Opening Balance	Additions	Under Construction	Transfers	Disposals	Closing Balance	Opening Balance	Additions	Transfers	Disposals	Closing Balance	
Investment Properties	R	R	R	R	R	R	R	R	R	R	R	R
Land	3,440,900	-	-	-	(334,100)	3,106,800	-	-	-	-	-	3,106,800
	3,440,900	-	-	-	(334,100)	3,106,800	-	-	-	-	-	3,106,800

EMTHANJENI LOCAL MUNICIPALITY
ANALYSIS OF INTANGIBLE ASSETS AS AT 30 June 2012

Description	Cost / Revaluation						Accumulated Depreciation / Impairment					Carrying Value
	Opening Balance	Additions	Under Construction	Transfers	Disposals	Closing Balance	Opening Balance	Additions	Transfers	Disposals	Closing Balance	
Intangible Assets	R	R	R	R	R	R	R	R	R	R	R	R
Computer Software	1,795,143	25,609	-	-	-	1,820,751	184,131	574,275	-	-	758,406	1,062,345
	1,795,143	25,609	-	-	-	1,820,751	184,131	574,275	-	-	758,406	1,062,345
Total Asset Register	2,143,367,638	5,290,493	13,252,107	-	(559,395)	2,161,350,844	1,063,203,364	68,728,039	-	(179,154)	1,131,752,249	1,029,598,594

APPENDIX C
EMTHANJENI LOCAL MUNICIPALITY
SEGMENTAL ANALYSIS OF PROPERTY, PLANT AND EQUIPMENT AS AT 30 JUNE 2012

Description	Cost / Revaluation					Accumulated Depreciation / Impairment				Carrying Value
	Opening Balance	Additions	Under Construction	Disposals	Closing Balance	Opening Balance	Additions	Disposals	Closing Balance	
	R	R	R	R	R	R	R	R	R	R
Executive and Council	452,406	451,640	-	-	904,047	117,136	173,829	-	290,965	613,081
Finance and Administration	2,015,913	597,274	-	(39,469)	2,337,357	607,915	522,399	(27,082)	1,085,337	1,470,486
Planning and Development	281,305,363	59,945	-	-	309,381,407	97,252,536	11,163,324	-	120,590,505	172,949,448
Health	148,791	-	-	-	148,791	48,800	27,109	-	75,909	72,882
Community and Social Services	5,024,572	211,237	-	(40,401)	5,195,409	1,260,744	997,133	(24,519)	2,233,358	2,962,051
Housing	12,592,828	3,627,225	-	(15,611)	16,126,691	1,856,902	1,892,869	(25,215)	3,718,471	12,462,386
Public Safety	-	-	-	-	-	-	-	-	-	-
Sport and Recreation	-	-	-	-	-	-	-	-	-	-
Environmental Protection	-	-	-	-	-	-	-	-	-	-
Waste Management	105,525,942	100,239	183,100	-	105,768,681	52,643,178	3,162,581	-	55,805,203	50,003,523
Roads and Transport	395,179,236	6,850	9,571,802	(112,314)	404,645,575	215,966,710	8,225,644	(102,337)	224,090,017	179,800,270
Water	308,444,208	38,916	1,836,026	-	310,280,233	143,619,844	14,354,419	-	157,973,690	152,344,886
Electricity	1,027,442,336	171,557	1,661,179	-	1,035,620,711	549,637,886	27,642,038	-	581,026,551	452,750,435
Other	-	-	-	-	-	-	-	-	-	-
Total	2,138,131,596	5,264,885	13,252,107	(207,795)	2,190,408,902	1,063,011,650	68,161,345	(179,154)	1,146,890,005	1,025,429,449

APPENDIX D
EMTHANJENI LOCAL MUNICIPALITY
SEGMENTAL STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2012

2011 Actual Income	2011 Actual Expenditure	2011 Surplus/ (Deficit)	Description	Vote Number	2012 Actual Income	2012 Actual Expenditure	2012 Surplus/ (Deficit)
R	R	R			R	R	R
1,971,758	(17,729,723)	(15,757,965)	Executive and Council		5,566,194	(9,717,798)	(4,151,604)
27,226,031	(18,505,858)	8,720,173	Finance and Administration		30,475,327	(23,668,337)	6,806,990
3,089,951	(8,002,556)	(4,912,606)	Planning and Development		4,034,155	(5,662,115)	(1,627,960)
249,334	(216,569)	32,766	Health		-	(169,232)	(169,232)
671,407	(3,990,336)	(3,318,929)	Community and Social Services		1,440,433	(5,029,292)	(3,588,859)
1,109,127	(4,039,478)	(2,930,351)	Housing		244,006	(4,016,068)	(3,772,062)
9,076,978	(9,016,131)	60,847	Public Safety		7,165,144	(7,829,276)	(664,132)
1,116,758	(1,463,793)	(347,034)	Sport and Recreation		79,423	(33,032,789)	(32,953,366)
-	-	-	Environmental Protection		-	-	-
23,795,472	(11,379,162)	12,416,310	Waste Management		24,722,347	(20,168,901)	4,553,446
17,029,836	(73,874,965)	(56,845,128)	Roads and Transport		618,791	(9,493,300)	(8,874,509)
16,296,925	(5,625,173)	10,671,752	Water		19,008,734	(32,776,305)	(13,767,571)
50,530,600	(32,760,795)	17,769,806	Electricity		56,968,969	(54,151,724)	2,817,245
-	(1,619,998)	(1,619,998)	Other		-	(1,478,531)	(1,478,531)
152,164,178	(188,224,536)	(36,060,358)	Sub-Total		150,323,523	(207,193,669)	(56,870,146)
-	-	-	Revenue Foregone		-	-	-
152,164,178	(188,224,536)	(36,060,358)	Total		150,323,523	(207,193,669)	(56,870,146)

APPENDIX E
EMTHANJENI LOCAL MUNICIPALITY
ACTUAL VERSUS BUDGET (ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT) FOR THE YEAR ENDED 30 JUNE 2012

Description	2011/12	2011/12	2011/12	2011/12	2011/12	2011/12	Explanation of Significant Variances greater than 5% versus Budget
	Actual	Under Construction	Total Additions	Budget	Variance	Variance	
	R	R	R	R	R	%	
Executive and Council	451,640	-	451,640	631,000	(179,360)	(28.42)	Underspent in terms of budget.
Finance and Administration	597,274	-	597,274	2,598,000	(2,000,726)	(77.01)	Underspent in terms of budget.
Planning and Development	59,945	-	59,945	300,000	(240,055)	(80.02)	Underspent in terms of budget.
Community and Social Services	211,237	-	211,237	1,000,000	(788,763)	(78.88)	Underspent in terms of budget.
Housing	3,627,225	-	3,627,225	-	3,627,225	100.00	No budget allocated to Housing.
Public Safety	-	-	-	150,000	(150,000)	(100.00)	No expenditure incurred.
Waste Management	100,239	183,100	283,339	6,000,000	(5,716,661)	(95.28)	Allocation - refer to Roads and Transport.
Roads and Transport	6,850	9,571,802	9,578,652	3,228,000	6,350,652	196.74	Allocation - refer to Waste Management.
Water	38,916	1,836,026	1,874,942	6,331,000	(4,456,058)	(70.38)	Underspent in terms of budget.
Electricity	171,557	1,661,179	1,832,737	1,051,000	781,737	74.38	Due to Hospital Electricity Line being build.
Total	5,264,885	13,252,107	18,516,992	21,289,000	(2,772,008)	(13.02)	

ACTUAL VERSUS BUDGET (ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT) FOR THE YEAR ENDED 30 JUNE 2011

Description	2010/11	2010/11	2010/11	2010/11	2010/11	2010/11	Explanation of Significant Variances greater than 5% versus Budget
	Actual	Under Construction	Total Additions	Budget	Variance	Variance	
	R	R	R	R	R	%	
Executive and Council	2,585	-	2,585	30,000	(27,415)	(91.38)	Capital expenditure has been categorised correctly. See Community and Social Services.
Finance and Administration	546,277	-	546,277	696,000	(149,723)	(21.51)	More expenditure were allocated against Repair and Maintenance.
Planning and Development	45,510	-	45,510	16,000	29,510	184.44	All MIG capital Expenditure has realised. See Infrastructure below.
Health	63,611	-	63,611	18,000	45,611	253.39	See comment of Community and Social Services.
Community and Social Services	1,370,195	-	1,370,195	-	1,370,195	100.00	Overspending is a result of correct categorisation.
Housing	1,416,404	-	1,416,404	-	1,416,404	100.00	Electrification of Sub economical houses has been completed. Hence Electricity budget vote was incorrectly allocated.
Public Safety	-	-	-	250,000	(250,000)	(100.00)	See comment of Other.
Sport and Recreation	-	-	-	1,324,000	(1,324,000)	(100.00)	See comment of Other.
Environmental Protection	-	-	-	-	-	100.00	See Planning and Development comment.
Waste Management	-	-	-	2,200,000	(2,200,000)	(100.00)	See Planning and Development comment.
Roads and Transport	2,616,234	-	2,616,234	2,882,000	(265,766)	(9.22)	Weather conditions lead to the under spending. More Repair and maintenance were performed.
Water	6,334,366	-	6,334,366	7,665,000	(1,330,634)	(17.36)	See Planning and Development comment.
Electricity	123,171	-	123,171	2,223,000	(2,099,829)	(94.46)	See Planning and Development comment. Existing Prepaid meters were replaced without new connections.
Other Infrastructure	196,983	-	196,983	-	196,983	100.00	Lotto funding and other capital expenditure were classified under "Other".
Total	12,715,336	7,940,059	20,655,395	17,304,000	3,351,395	19.37	See Planning and Development comment.

APPENDIX F
EMTHANJENI LOCAL MUNICIPALITY
DISCLOSURE OF GRANTS AND SUBSIDIES IN TERMS OF SECTION 123 OF MFMA, 56 OF 2003

Grants and Subsidies Received

Name of Grant	Name of Organ of State or Municipal Entity	Quarterly Receipts				Quarterly Expenditure				Grants and Subsidies Delayed / Withheld				Reason for Delay / Withholding of Funds	Compliance to Revenue Act	Reason for Non-compliance
		Sept	Dec	March	June	Sept	Dec	March	June	Sept	Dec	March	June			
Equitable Share	Nat Treasury	12,683,000	10,146,000	7,610,000	-	12,683,000	10,146,000	7,610,000	-	N/A	N/A	N/A	N/A	N/A	Yes	N/A
FMG	Nat Treasury	1,450,000	-	-	-	196,868	532,710	324,309	396,113	N/A	N/A	N/A	N/A	N/A	Yes	N/A
Library Grant	Provincial	690,000	-	-	-	690,000	-	-	-	N/A	N/A	N/A	N/A	N/A	Yes	N/A
MSIG	Nat Treasury	790,000	-	-	-	790,000	-	-	-	N/A	N/A	N/A	N/A	N/A	Yes	N/A
Phandulwazi upgrade	Provincial	-	-	-	-	-	-	-	-	N/A	N/A	N/A	N/A	N/A	Yes	N/A
MIG	Nat Treasury	5,500,000	5,000,000	-	2,806,000	67,300	2,752,424	3,058,741	4,488,705	N/A	N/A	N/A	N/A	N/A	Yes	N/A
DME	Provincial	260,000	-	-	-	260,000	-	-	-	N/A	N/A	N/A	N/A	N/A	Yes	N/A
Housing Projects	Provincial	-	-	-	-	20,000	-	-	-	N/A	N/A	N/A	N/A	N/A	Yes	N/A
Eradication Housing	Provincial	-	-	-	-	-	-	-	-	N/A	N/A	N/A	N/A	N/A	Yes	N/A
Hydrphonic Houses	Provincial	-	-	-	-	-	-	128,600	-	N/A	N/A	N/A	N/A	N/A	Yes	N/A
Fire Fighting Equipment	Provincial	-	-	-	-	-	-	-	-	N/A	N/A	N/A	N/A	N/A	Yes	N/A
Hospital Electricity Line	Provincial	5,429,737	-	1,760,000	-	-	-	-	192,930	N/A	N/A	N/A	N/A	N/A	Yes	N/A
DWARP	Provincial	-	-	141,410	-	-	-	141,410	-	N/A	N/A	N/A	N/A	N/A	Yes	N/A
Water Affairs (EU)	Provincial	-	-	-	330,736	-	-	-	330,736	N/A	N/A	N/A	N/A	N/A	Yes	N/A
Housing Accreditation	Provincial	-	-	-	218,056	-	-	-	218,056	N/A	N/A	N/A	N/A	N/A	Yes	N/A
Water Affairs (ACIP)	Provincial	-	-	-	281,272	-	-	-	281,272	N/A	N/A	N/A	N/A	N/A	Yes	N/A
Total Grants and Subsidies Received		26,802,737	15,146,000	9,511,410	3,636,064	14,707,168	13,431,134	11,263,060	5,907,812							